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THE HISTORY
OF COMMERCE

BY THE SAME AUTHOR AND FROM
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INDUSTRIAL CHANGE, 1870-1924**

The purpose of this book is to outline the growth of Society, Industry, and State during a well-defined phase of development. Passing briefly over the circumstances of the birth and infancy of new ideas and ideals, it narrates more fully their struggle through an unkindly environment into adolescence, and their rapid maturing during the last decade or two. In the preparation of this survey, the author has especially kept in mind the needs of the inexperienced but intelligent student.

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THE HISTORY OF COMMERCE

BY

T. G. WILLIAMS

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AUTHOR OF "MAIN CURRENTS OF SOCIAL AND
INDUSTRIAL CHANGE, 1870-1924"



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PREFACE

THE present volume sets forth in moderate compass a description of the commercial activities of all the great nations whose economic life has at any time progressed beyond the stage marked by the direct satisfaction of wants in primitive occupations, such as hunting or agriculture, and has developed the more complex and specialized functions of trade.

The annals of commerce offer a wide and fruitful field of inquiry to the student of history; for the forces which ultimately condition commercial development are identical with the deep undercurrents of civilization. In sounding for them, therefore, we are compelled to take duly into account many factors not primarily economic in character: politics and religion, science and discovery, art and adventure. Especially in the modern world, civilization and commerce react strongly upon one another. The maintenance of the material fabric of high civilization demands a constant progression in the arts of commerce, while this progression in turn promotes a further multiplication and refinement of those human wants, the consciousness of which distinguishes the advanced from the backward peoples of the earth. The story of commerce is, therefore, not so much a detached, self-contained phase of history as a variation on the main theme. It follows closely the lines of the social and political development of States, on which it is a running commentary. For this reason it is worthy to claim the attention of the general student of history to an extent far greater than is at present acknowledged in practice.

In one important respect, however, the history of

commerce differs from that of politics, diplomacy and war. The latter centres around a few gigantic figures, supermen of strategy or born leaders of men who gather into their own spirit the inchoate stirrings of their generation and give them back in a firm, clear call to action. Under the spell of such masterful minds particular ends are, for a time at any rate, forgotten, while purposes common to all are sought with undivided energy. But the history of commerce contains few or none of such heroic passages. It is a record of the effects of the aggregate working of countless small, and in themselves insignificant, transactions of buying and selling, wherein the governing impulse is the workaday necessity of earning a livelihood, or the less praiseworthy desire to achieve wealth for its own sake. Here self-regarding motives usually take precedence of the altruistic, and competition is a sharper spur than co-operation. Notwithstanding this fact, the story of commerce is not devoid of the romance of great achievement in the service of noble and unselfish ideals, and among the benefactors of the human race we award high place to the merchant princes. He who would fill out the gaps in the story and learn more of the human interest of it will find much illustrative comment in the biographies of such men as Sir Richard Whittington, Sir Thomas Gresham, Sir Josiah Child, Warren Hastings, Cecil Rhodes, Andrew Carnegie, and Lord Leverhulme—a random selection.

Throughout the book I have laid emphasis, not on absolute values, but on the dynamics of change. Both for the general reader and for the average student I have thought that a few indications of broad tendencies will be more serviceable than many detailed statements of quantitative facts. Nevertheless, some simple tabulations have been included in the text and

appendices which, it is hoped, some at least may find useful as material on which to exercise their powers of deduction, and which may easily be reduced to round figures capable of being memorized if required. I have tried throughout to relate facts to general principles and have also, where it appeared desirable, digressed from the main story to elucidate briefly some aspects of economic theory. In view of the prominence of the question of protective tariffs in current political discussion, the history of trade policy is described in some detail, so that the student may have a background of historical fact against which to set his judgments on present tendencies.

The broad geographical and climatic "controls" are described at the outset, and the stage being thus set for the entrance of the principal actors, the commercial peoples of antiquity are passed quickly in review. As trade and industry develop in the Middle Ages, the treatment becomes gradually fuller, and discussions of commercial theory are introduced to throw light on the origins of national commercial policies in Southern and Northern Europe. The description of the struggle for commercial empire over the old civilizations of the East and the newly-discovered territories in the West, carries the story forward to the age of mechanical inventions. In the final chapters the changes in the organization of commerce and credit which ran parallel to those of the Industrial Revolution, the vast expansion of trade and the creation of world markets in the nineteenth century, and the effects of the Great War on the commerce of the leading nations of to-day, are considered in still fuller detail.

The inclusion of maps and charts would have added too much to the bulk of the volume, but it is assumed that the student will have an atlas (historical and

economic) at his elbow and consult it frequently, particularly for the tracing out of trade routes. The footnotes will guide him to further reading and at the same time serve as the author's acknowledgment of the sources he has chiefly drawn upon. The kind permission granted by the Controller of H.M. Stationery Office to use material contained in official publications is also hereby acknowledged. My grateful thanks are again due to my wife, who has read the proofs and prepared the index, and in many other directions has given invaluable help during the preparation of the book.

T. G. W.

1926

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THE HISTORY OF COMMERCE

CHAPTER I

INTRODUCTORY : FUNDAMENTAL NOTIONS

As variety is the spice of life, so is it the spring of commerce. The earth exhibits an endless diversity of climate and natural resources ; the peoples possess an infinite number of aptitudes of mind and body, and in consequence countless varieties of interrelation have sprung up between the races of man and their physical environment. Differences in material wants supply the motives for exchange which we call commerce. Had nature given to every region in the world the same unvarying length of day and night, the same degree of heat and cold, the same constituents in the crust of the earth and the same forms of vegetation upon its surface, commerce could never have developed, for there would then have been no advantage arising from an exchange of the productions of one region for those of another. Nor could there be any inducement for a community to create a surplus of commodities over and above its own requirements. For on our assumption no people could offer anything which its neighbours did not already enjoy in equal degree.

The existence of differential advantages is, therefore, a necessary condition of the growth of commercial relations between two countries. An excess in one must be balanced by a deficiency in the other. Such

variations may be due either to the bounty or to the niggardliness of nature, which has, for example, endowed Great Britain with a rich store of mineral wealth, but has left Ireland relatively poor in this respect. It may, on the other hand, result from the operation of human law designed to produce an artificial plenty or shortage, as when by a system of bounties a government has stimulated industry in a particular direction, or when by prohibitory laws or taxation it has checked or suppressed altogether some form of production. Occasionally, the fortuitous accidents of history have provided the necessary initial impulse, and reinforcing some natural propensity arising from climate, geographical situation, or the inherited aptitude of the people, have given rise to some great industry. The cotton industry of Lancashire, not yet two centuries old, came first into existence in consequence of the historical link between the Atlantic-facing harbours of Britain and the opposing harbours of the North American sea-board with its "plantation" hinterland. The industry developed to its present proportions because mechanical inventions enabled it to derive the fullest advantage from the favourable conditions for manufacture produced by the abundance of cheap coal and the moist climate of a region in the track of the rainy West winds.

Commerce, then, arises from this fact of differential wants. It develops by the effort of a body of producers to give to surplus transferable commodities a higher value in exchange by disposing of them to a body of consumers among whom they are scarce, and receiving in return, directly or indirectly, goods in which they are themselves deficient. Without the possibility of such exchange, superfluity would be waste. The too-lavish bounty of nature might even become an embarrassment or a peril to mankind. To

such a thought Milton has given expression in poetical hyperbole—

The herds would over-multitude their lords :
 The sea o'erfraught would swell, and the unsought diamonds
 Would so emblaze the forehead of the deep,
 And so bestud with stars, that they below
 Would grow inured to light, and come at last
 To gaze upon the sun with shameless brows.

Comus.

But if commodities having in one country little or no value, because of superabundance in relation to demand, can be bartered in another where they possess considerable value, because of scarcity, then the wealth of both peoples is increased by that which they have received in exchange for something which they would rather be without or on which they set but little store. When all countries act on this principle, the superfluities of one region minister usefully to the wants of another, and the welfare of the human race is increased. In the language of economics, the gains of commerce arise from the fact that exchanges by way of trade result on each side in the substitution of goods having a lower marginal utility by those having a higher marginal utility. Unless they produce this addition to aggregate utility, exchanges are not, strictly speaking, commercial in character. An exchange of gifts or a payment of tribute usually results in a net loss of total utility. Were it otherwise, the gifts would have no virtue, and the extortion of tribute would not be penal. Moreover, much that is often called commerce in the ancient world is wrongly so described. For where imports come to a country as tribute from a conquered people, the reciprocity of advantage, which is an essential element in the idea of commerce, is absent. The motives which actuate the parties may be not commercial, but political or merely ceremonial. It is not always possible accurately to define the

character of a transaction. But in so far as it bears the appearance of an exchange of gifts, and there is neither bargaining nor the semblance of a market frequented by competitors, it cannot be classed as a commercial fact. The exports of corn from Ancient Britain to Gaul were not part of a free and reciprocal commercial exchange ; they were a compulsory tribute levied on conquered tribes by the Romans for the maintenance of their legionaries.

Other things being equal, there will be more international commerce (that is to say, exchange of goods) if two countries, each fitted by nature for the production of a few differing commodities on a large scale, devote most of their energies to this end, than if each should endeavour to supply a large variety of its own wants. For, by so doing, each will reap the economies of large-scale production, will sooner develop specialized skill among her workers, and will have a surplus to exchange for goods which, by hypothesis, can be produced more cheaply in the other. But this general statement is subject to many qualifications. National security, or other political or social end, may weigh more heavily in the scale than mere cheapness or plenty. Frequently, therefore, governments have deliberately attempted, even at great cost, to bring about a diversification of industry by establishing new manufactures or by rendering artificial aid to those which are in process of decay.

Communications.

But differential wants, although of fundamental importance, would not be sufficient of themselves to give rise to commercial relations between two countries. There must also be the possibility of communication and transport. The inhabitants must have mutual knowledge of what each region has to

offer, and of what each is in need. They must surmount any physical obstacles which present barriers to intercourse. In early times the deserts surrounding Egypt completely cut off communications with the nations who occupied the regions to the west, the south, and the east. The impassable Himalayas have always separated the inhabitants of the Tibetan plateau from those of the Ganges plain to the south. Until the fifteenth century, when the art of navigation made rapid progress, commerce was restricted to the lands which encircled the narrow seas. The wonderful civilizations of Mexico and Peru had a separate existence on the other side of the Atlantic Ocean, unknown and unsuspected by the inhabitants of the Old World. Where such obstacles have existed, the work of the pioneering explorer has been an essential preparation for commercial intercourse.

But wherever communication was easy, knowledge spread rapidly and commerce developed early. A navigable river, a ford, or a mountain pass, a sheltered harbour, a chain of oases in a desert, or of islands in a sea, a track through a forest, or a firm road—perhaps constructed originally by some emperor for the passage of an army—any of these might become a channel for trade between neighbouring peoples. Along such lines towns would probably spring into being, contributing in one way or another to the needs of merchants using the route, and themselves deriving profit from the passage of men and goods through their streets and markets.

Law and Order.

The development of commerce is further dependent upon the attainment of some degree of stability in government and upon the institution of private property. For the idea of sanctity of contract can

mature only in a settled community, and a code of commercial honour is a product only of long usage among people who have learned the advantages of civilization or the art of living together in ordered society. Trade implies the use of standards of weight, measure and value, recognized and enforced by law, or custom having the force of law.

For the purpose of recording transactions, the art of writing and the science of arithmetic must have made some progress at least commensurate with the complexity of the exchanges. To deal with disputes arising out of the interpretation of contracts, a system of justice enforceable with all the authority of the law, and yet obtainable swiftly and cheaply in regular courts, was indispensable for traders. Aliens, unless assured of equal justice as against natives, would not expose their lives and property to risk among strangers. Commerce is thus seen not only to require the guarantee of settled government, but to be itself an influence contributing to the establishment of law and order. In fact, civilization and commerce, at all events in the modern world, are scarcely to be thought of apart from one another. Every highly-developed civilization is based upon the material wealth which accrues from the activities of commerce, and commerce itself, as practised in our day, presupposes that ceaseless progression in the arts and sciences which is characteristic of western civilization.

Growth of a Specialized Commercial Middle Class.

The development of commerce is accompanied by the growth of specialization in the occupations of the people. In primitive communities, where the subject population was wholly engrossed in agriculture and the ruling class devoted itself mainly to warfare (with

a religious priesthood apart from both), there was neither commerce nor any necessity for a commercial class. The beginnings of commerce were usually accompanied by the emergence of a new social class, which took advantage of some favourable circumstance to throw off the heavy yoke of legal or customary dependence on a superior. No longer bound to the soil, the emancipated classes secured the privilege of coming and going as they pleased. They established markets and fairs, won privileges and concessions for themselves and their order, concluded treaties, controlled their own taxation, and in fullness of time developed all those specialized activities of commerce with which we are to-day familiar : production of raw materials, transport, manufacture, wholesale and retail trade, banking, agency, company promoting, business management, stockbroking, advertising, costing, accounting, and the work of numberless other subordinate groups whose labour contributes to the making and exchange of goods in the modern world.

Money Economy.

The rise of a commercial middle class is usually promoted by the substitution of a " money " for a " natural " economy. In a society based on a natural economy men are bound together by customary ties, and their obligations towards one another are measured by mutual services rather than by payments of money ; for example, the Norman lord gave protection to the villeins on his manor, while they rendered him in return labour dues or gifts in kind. In feudal communities tradition governs all things. There can be little progression. Only the governing class has the privilege of exercising civil or political rights. The servile worker is a chattel and a species of property, even though to some extent protected by immemorial custom

against the tyranny of a rapacious lord. He is born into his station, and cannot easily rise out of it.

In a society so constituted, the effect of the introduction of a money economy is at once to release the serf from absolute dependence. Being free within certain limits to labour or to withhold his labour, to choose his own employer, to select the objects of his consumption, to employ his leisure by cultivating his mind and widening his interests, he can, and probably will, acquire some knowledge of political affairs, and will seek to advance his own economic welfare. Commerce will offer him the easiest escape from a life of mechanical drudgery, and the readiest outlet for his enterprise; it will tempt him with prospects of wealth which are fantastically beyond his reach so long as he is engaged in manual toil. The establishment of a "cash nexus" between lord and serf, now transformed to master and servant, and later to employer and employee, completely alters the character of social relationships. Society thereupon ceases to be static, and becomes dynamic. Vertical mobility increases, and instead of two well-defined classes, the governors and the governed, the politically free and the servile, we have numerous intermediate grades, the members of which are constantly rising or sinking in the scale of social estimation and economic status.

Currency, Banking, and Credit.

In primitive communities the difficulties of barter give rise quite early to the use of conventional standards of value and media of exchange; e.g. slaves, purple cloths, fur skins, cowrie shells, fish hooks, or wheat grains. But there are obvious disadvantages and limitations in the use of such units. For example, they are not always even approximately constant in

value. One slave is not the equal of another in strength and skill, nor is the same slave of unchanging worth. The units are sometimes not divisible without loss into smaller units. The use of coined money¹ is characteristic of a more advanced civilization, making possible commercial transactions on a vastly larger scale.

Once a money economy has been introduced, the accumulation of capital becomes much more rapid than before, and this wealth being used in commerce yields further profits which swell the stock. Any considerable commercial enterprise to-day involves the sinking of large sums of money in land, goods, ships, wages, and so forth, and a period of extended waiting until profits begin to accrue. The existence of adequate quantities of accumulated capital in available form, and of the machinery of banking for dealing with these, has thus become in modern times a necessary condition of trade and commerce. Moreover, by a further refinement of the conception of capital, much of the trading of the world is now conducted on a basis of credit which is not actual and existing, but merely potential, capital, resting upon anticipations of the future course of production, and estimates of the character of the men who are engaged in it.

Commerce and Character.

In conclusion, any considerable development of commercial enterprise in a nation presupposes that the people are imbued with certain qualities of character and habits of mind. Their laws and institutions must be progressive. They must set great store by knowledge and the rewards for enterprise must be adequate. Such a people must possess an unlimited capacity for developing new wants and a corresponding capacity

¹ According to Herodotus, the Greeks learned the use of coined money from the Lydians about 700 B.C.

for work. Among them we shall expect to find the scientific spirit highly cultivated, a good standard of general and technical education, a well-grounded respect for law and commercial morality, a wide vision, a fertile imagination, and a natural love of adventure.

CHARACTERISTICS OF EARLY AND OF LATE COMMERCE

The commodities of commerce serve for use or delight. The fundamental physical requirements of man are food, clothing, and the means of shelter. These requirements being satisfied, he quickly develops new wants related to adornment, luxury, and intellectual pleasures. But though the want of commodities for use and the want of commodities for delight must be satisfied in this sequence, it must not be supposed that commerce developed first by the exchange of those things necessary for existence, and that trade in articles of luxury and refinement followed later. On the contrary, early commerce was concerned almost entirely with goods which ministered to the enjoyment, rather than to the support, of life.

The usual exchanges were of articles small in bulk, though possessing high and imperishable value. Trade was spasmodic, advantage being taken of any opportunity for safe carriage which chance afforded. The question of speed was not important, so that little attention was paid to the improvement of the means of transport. There were no fixed standards of value, since the strength of the factors of demand and supply were highly variable and consequently incalculable. There was no international medium of exchange and the method of trade approximated to barter.

In all these respects modern commerce stands out in marked contrast. Luxury commodities constitute to-day only a small proportion of the whole volume of

trade ; its sudden stoppage would inevitably cause millions of the human race to perish for the lack of the bare necessities of existence.¹ The staples of world trade (for example, wheat, coal, textiles, timber, meat) are bulky, and weight for weight of less value than the finely-wrought products of early craftsmanship. On account of the low value of some goods, and the perishable nature of others, carriage must be at once cheap and rapid, and in no direction has invention in modern times been stimulated to greater effect than in the improvement of the means of transport. In the supply of markets which are universal in extent, the law of averages enables the producer to estimate demand with considerable accuracy.

The simultaneous spread of information regarding the course of industry and trade, through the telegraph and the Press, quickly produces among merchants a consensus of opinion regarding commodity values (i.e. prices), which governs the terms of exchange of goods over the whole globe. A slight variation in prices at once deflects the current of industry and commerce into different channels. But as long as exchange values remain steady, trade flows in a never-ending stream, so smooth and regular in its motion that we have probably never learned to think of our breakfast as a recurring miracle. For less than that we cannot call it ; since, however modest and frugal it be, it has received tribute from the ends of the earth. Finally, there exists to-day a system of international credit, so efficient in its working that transactions between foreign merchants involving millions sterling can be effected with no more labour than that involved in signing a cheque or endorsing a bill of exchange.

¹ It is said that the corn supply available at any given moment in Great Britain is adequate only to the requirements of a period of six weeks at the normal rate of consumption.

THE GEOGRAPHICAL AND CLIMATIC BASIS OF COMMERCE

No clear understanding of commercial development is possible without some knowledge of the natural regions of the world, their distribution, climate, peoples, occupations, and products. By presenting an outline statement of the leading facts at this stage of our inquiry, we shall be enabled to avoid frequent repetition in later chapters.

The differences between one region and another in regard to natural products arise from differences of climate, in which the chief elements are temperature, humidity, sunshine, and wind. From the economic standpoint the earth's surface may be divided up broadly as follows—

1. Regions of Tropical Forest
2. " " " Grassland
3. " " " Desert
4. " " Temperate Forest
5. " " " Grassland
6. " " " Semi-desert
7. " " Tundra
8. " " Polar Ice and Snow

Each of the great land masses of the world includes areas approximating in character to these types, and since the development and the activities of man are controlled mainly by climate and natural conditions, we may expect to find that the same set of physical influences, even in widely separate regions, have produced similar characteristics in the structure of economic life. We may expect also to find that a certain kind of commercial relationship between any two regions will have a counterpart in some other part of the globe.

1. Regions of Tropical Forest.

In the tropical forest belts of constant rainfall, lying

usually within about latitude 15° of the Equator, the inhabitants find an easy subsistence in a primitive form of agriculture, in hunting, and in collecting. Animal products such as ivory, and valuable woods such as ebony, were the earliest commodities of commerce in these regions. At a later stage, when relations with cooler regions at a greater distance became possible, spices (cloves, allspice, nutmeg, and cinnamon) formed the staple of their trade. To-day the industrial peoples of the world derive thence much of the raw material for manufacture (e.g. rubber, copra, palm oil), and many important foodstuffs (e.g. coffee, cacao, sugar, bananas), the former from the forest proper, the latter from the forest clearings.

2. Regions of Tropical Grassland.

The savannahs, or tropical grasslands, differ climatically from the above in having a definitely marked summer rainfall season. As this characteristic becomes more pronounced the forest clearings become wider, leaving rich soil, capable of intensive cultivation and yielding the food products already referred to. Finally, the region opens out into a vast grass plain, the monotony varied only by a few shrubs in the drier parts, or by trees where a stream affords sufficient moisture to the roots. The typical occupation in savannah lands is stock-raising—cattle on the richer pastures, sheep and goats on the poorer fringe where the grassland is passing gradually into desert. These grasslands have only in recent times become important commercially. For it is only since the development of large industrial populations that the resources of these areas have entered into the reckoning of world trade. The moister parts yield millet, maize, and rice, important cereals contributing to the world's food stock ; while cotton is one of the most valuable raw materials of

manufacture. The drier regions, where sheep farming is carried on, produce meat, wool, and skins.

3. Regions of Tropical Desert.

The hot deserts are almost devoid of vegetable or animal life except in the oases, or where irrigation by the waters of rivers or artesian wells has been feasible. In such favoured spots, trees and shrubs yield gums and incense which in early times were staple articles of commerce. The desert proper yielded only granite, such as that used for the building of the Pyramids, precious stones, and gold dust washed out of gravel. Most of the products which the early commercial peoples derived from desert caravanserais were brought from the savannahs beyond: slaves, hides, wax, ostrich feathers, and cedar wood.

4. Regions of Temperate Forest.

The temperate forest regions fall into three categories: the warm forests with winter rains, the warm forests with summer rains, and the cool forests with an even distribution of rainfall. The first is the Mediterranean type, the original characteristic products being wine, fruits, and olive oil. The mulberry, planted for silkworm culture, is here an exotic, indigenous in summer rainfall or monsoon lands. In both kinds of warm forest the trees are evergreen, but the more important timber trees, for example, cedar, teak, eucalyptus, are obtained from the monsoon regions. Summer rainfall promotes cereal agriculture in warm climates such as that of India, whereas summer drought as in Mediterranean lands is less favourable.

The abundance of cereal food in monsoon lands, especially where rivers supply water for winter irrigation, has produced dense populations. In the teeming cities of the alluvial plains of India and China, the

industrial arts developed very early ; thence the ancient world was supplied with rich fabrics, wrought gems, and curiously carved ornaments of precious wood. The forests of the cooler temperate zones yield softer woods, less useful for ornament, since they will not take a high polish, but very valuable for many modern industrial uses (e.g. building, pit-props, paper manufacture). The coniferous trees yield also resin and turpentine. Besides lumbering, the trapping of animals for the sake of their furs has always been an important forest occupation. There is no doubt that in earlier times natural forests spread over a much larger part of temperate lands than they do to-day. Gradually they are being cleared to make way for mixed agriculture.

5. Regions of Temperate Grassland.

The temperate grasslands are of two kinds : (1) those that occupy ground once forested, where the moisture is sufficient to support intensive agriculture ; (2) the steppes, where the rainfall is inadequate for the life of trees, and the scanty pasture is sufficient to support only nomadic flocks of sheep. In the former are to be found the homes of the most highly civilized peoples of modern times, derived originally from tribes which occupied the poorer pastures. Such advanced people no longer rely upon agriculture for their main support. For a hundred years or more there has been a steady fall in the proportion of the population engaged in cultivating the land, and a corresponding rise in the proportion engaged in manufacture and commerce. This has been due to the progress of invention among a people compelled by nature to be strenuous in labour, yet not hopelessly condemned as in still colder latitudes to pinching poverty. The discovery of coal and its use as fuel multiplied the produce of their labour a thousand-fold, and set them on the path of industrial

progress. In consequence, whatever may be thought about human welfare, it is undeniable that there has been in these regions an enormous increase in material wealth.

6. Regions of Temperate Semi-Desert.

The conditions of nomadic life on the steppe lands are not favourable to the establishment of commercial relations with neighbouring lands ; in fact, peaceful commerce has always suffered from the invasions and depredations of swiftly-moving nomads. Their wealth is in their flocks, which provide them with all they need of food, clothing, and shelter. Since the steppe-dwellers have to move constantly in search of new pastures and water supplies, their domestic equipment is very light and portable. Their method of life is but little affected by contact with the progressive civilizations. Only where the pressure of the latter on the available supplies of food has caused them to remedy the lack of moisture by irrigation, have the steppes been brought into the ambit of commerce. The first surpluses available for commercial exchange when a nomadic people is in transition to a settled form of life consist of skins, hair, and wool, and fabrics wrought from these materials.

7. Regions of Tundra.

Tundras occur where the subsoil is permanently frozen and only the surface soil is thawed in summer. Vegetation consists chiefly of moss and lichen, with stunted trees and bushes on the margins. The people are nomadic, moving to the south in winter for the hunting and trapping of fur-bearing animals, and to the north in summer for sea-fishing. The principal economic wealth of the tundras arises from the domesticated reindeer and elk, and from the fisheries. The

commodities entering into general trade are furs, seal-skins, seal-blubber, and whale-oil. The commerce of these regions is passive in character ; that is to say, the exploitation of the wealth of the frozen lands is in the hands of traders from temperate climates, and the native peoples are dependent on these for the enterprise which leads to exchange.

8. Regions of Polar Ice and Snow.

The lonely expanses of polar ice and snow have at present no importance for commerce, although it would be too large an assumption, in view of the astonishing progress of science and invention, to suppose that they must for ever lie beyond the reach of commercial enterprise.

CHAPTER II

COMMERCE IN THE EARLY WORLD

APART from the physical obstacles presented to transport, and the risk of loss from the depredations of marauders, there were two great hindrances to the development of commerce in early times : the rigidity of a social system based upon caste and, in particular, the existence of slavery. The ancients had no moral or ethical scruples regarding slavery, which was to them a part of the natural order of things, and we must be careful not to judge by modern standards a social system based on the enslavement of nine-tenths of the population. For slaves, though they carried out all the menial tasks, were also frequently well-educated, and often engaged in occupations which we class among the honourable professions. There may, indeed, be less real economic freedom for some classes in our modern industrial system. But commerce can grow up only on a foundation of social freedom—freedom to come and go, freedom to buy and sell, freedom to dispose of property, and freedom from arbitrary exactions by the governing power.

In our consideration of early commercial history we must in fact be constantly on our guard against accepting too modern an interpretation of things. The risk of anachronism is particularly great when economic arrangements are being discussed. It is difficult at a great distance of time to determine how far economic practice diverges from theory, and we, who live in an age when material values occupy so much of our attention, are prone in our study of the past to classify as economic facts matters which pertain much more closely to religious or social practice.

EGYPTIAN COMMERCE

Egypt is the "gift of the Nile." During countless ages its soil has been enriched by the sediment left by the annual floods. In an almost rainless climate the river has supplied the moisture required for irrigation. Bounded on either side by the desert, which lies too high for the floods to reach, Egypt is just a narrow, alluvial strip, ten miles wide on an average, and 500 miles long, devoid of trees and totally without mineral wealth. The population is engaged almost exclusively in agriculture, which was at first pastoral, and later, as the land was drained and reclaimed, became increasingly arable. Since the country bore a uniform character all over its surface, there was nothing to stimulate internal trade. Nor was there any great inducement to develop commercial relations with foreign countries. For in all that was necessary to the preservation of life Egypt was self-sufficing. The country produced an abundance of food. Flax and cotton, growing in profusion, supplied the people with the raw materials of clothing, while the climate was such as to make unnecessary all but the simplest forms of shelter, and all but the minimum of domestic furniture and implements.

Character of Foreign and Internal Trade.

Grain was bartered for "a little balm and a little honey, spices and myrrh, nuts, and almonds." Such were the payments made by Jacob for the corn which he sent his sons to buy from Joseph in Egypt. In addition, gold, ivory, wine, oil, and precious kinds of timber, were sometimes brought into the country to supply its deficiencies. These, it will be noticed, all contribute to luxury. It has already been noticed as characteristic of early commerce that the commodities exchanged should be costly and of relatively small

bulk. The difficulties of transport over great distances effectually put a limit to the quantities that could be carried, and the expenses and risks were so great, that articles of luxury alone could bear the cost of transportation.

It is surprising, in view of the fact that Egypt possessed no minerals of her own, to find that her ancient people were proficient in the art of metal-working. The period during which Egyptian art flourished coincided with the Bronze Age. Probably the copper constituent of bronze was derived from Sinai, a peninsula jutting down into the Red Sea, while the tin might have been brought from the Phoenicians, who obtained it from Britain. It is less difficult to understand how the Egyptians developed the industrial art of pottery to such perfection, for all the necessary materials were present in the soil.

Lack of Commercial Enterprise.

But there is little evidence that the Egyptians developed active commercial relations with their neighbours. They were content to allow the merchants of other races, particularly the Semites, to enter their country for purposes of trade; for a long time they themselves do not appear to have travelled beyond their own borders. The breakdown of Egyptian isolation began when a king of one of the later dynasties sent an army across the eastern desert to the valley of the Euphrates and there, about the year 1700 B.C., established a doubtful suzerainty over the Chaldeans. The Euphrates valley, like the Nile, was alluvial; nevertheless the products differed considerably. Chaldea specialized in wool, Egypt in linen. Chaldea produced horses and camels, dyed and embroidered stuffs, and timber from the mountain slopes of the north. But here again it is difficult to distinguish between tributary

payments and commercial exchanges. For when the military power of the Pharaohs declined, their Asiatic possessions fell away and trade relations ceased.

Egyptian civilization was never transplanted to other lands ; unlike Phoenicia, Greece, and Rome, Egypt founded no colonies and she never developed her sea power. Pharaoh Neco is credited with having promoted the greatest voyage undertaken in ancient times—the circumnavigation of Africa—but even he employed Phoenician sailors to carry out his bold project. Essentially, Egypt was a land power, and notwithstanding tentative adventures across the deserts, she was content to develop her resources within the limits of the Nile valley. Her attitude to commerce was passive and receptive. The great achievements of Egyptian enterprise—the gigantic Pyramids and other great works—the means for which, had they been undertaken in the modern age, would have come probably from the profits of trade and industry, have nothing to do with commerce. They were erected by forced labour. They imply the existence of a social and political system in which economic liberty was unknown. It was left to others to develop the idea of a free and active commerce.

BABYLONIAN COMMERCE

The Euphrates and the Tigris had the same significance for Babylonia as the Nile for Egypt. There, too, an alluvial valley became the seat of a wonderfully developed civilization, exceeding perhaps in its wealth and luxury any of the earlier culture-homes of man. The natural advantages of a region watered by two rivers were increased by artifice ; for by the construction of dams and canals, the area served by the annual floods was enormously extended by irrigation. The desert was made to “blossom as the rose.” The

navigation of the rivers was improved by dredging and canalization, and ships are said to have plied between the river ports and the distant shores of India and Ceylon.¹ Babylon itself became in the time of King Nebuchadnezzar (that is, about 600 B.C.) the market for almost the whole of Asiatic commerce.

Trade Routes.

Compared with Egypt, Babylon was better situated for an extensive foreign commerce, because the land was situated at the point of convergence of caravan routes from Middle and Further Asia, South Arabia, East Africa, the Mediterranean ports, Egypt, and Asia Minor. The life of the capital was cosmopolitan. Strangers from every climate were to be seen in her streets and markets. Here it was that Nebuchadnezzar projected the scheme for building the tower of Babel. From Tyre, one important route ran to Damascus, thence to Thapsacus on the Euphrates, and across Mesopotamia (the region "between the rivers") to Nineveh on the Tigris. A lower route connected the Tyrian coast with Babylon *via* Palmyra. A third ran from the lower Euphrates across the Syrian desert to Egypt, intersecting at right angles the route along which travellers passed from Palestine to Arabia.

The routes terminated in five seas: the Mediterranean Sea, the Black Sea, the Caspian Sea, the Persian Gulf, and the Red Sea; a circumstance which enabled Babylonia to enlarge her commerce towards every point of the compass. Here east met west and north met south. The consequence was that while Egypt remained comparatively secluded from the outside world, the valley of the Euphrates and Tigris

¹ It is more probable that transshipment took place at Gerrha and Tylos, at the end of the Persian Gulf, where the ships of Babylon met those which traded along the coast of India to Ceylon.

built up commercial relations with Arabia to the south, Syria to the west, Armenia and Asia Minor to the north, and Persia to the east. Of the two great rivers the Euphrates was better situated than the Tigris, and Babylon therefore outstripped Nineveh and Baghdad in commercial importance. Herodotus, who visited Babylon in the fifth century B.C., reports that the city covered an area of nearly 200 square miles. It was surrounded by walls so thick that chariots could be driven upon them. Its "hanging gardens," or terraces planted with trees and supported by pillars and rows of arches, were reckoned among the Seven Wonders of the World.

The Wealth of Babylon.

The basis of the wealth of Babylon was agriculture, for nature yielded to the same soil several crops a year. But the cities also developed important industries of their own. In the workshops of Babylon skilful craftsmen wove costly fabrics of wool, linen, and cotton. The carpets, curtains, cloths, and muslins for furnishing and dress were justly famous for the richness and artistry of their design. From the clay soil they made porcelain and pottery. There was, moreover, a considerable entrepôt trade. From the mountainous region to the north merchants brought precious metals and gems, ivory, emery, lapis lazuli, wine, and fine woods such as ebony. Arabia supplied perfumes; India, silks and spices; Asia Minor, wines and olive oil. From the nomadic tribes of Scythia (or South Russia) the merchants of Babylon obtained furs and skins, and from China they imported hunting dogs.

The caravan traffic which brought merchandise to the storehouses of Babylon was chiefly in the hands of Arabians, Syrians, and Hebrews. The contributory

maritime traffic was conducted mainly by the Phoenicians who had established stations not only on the Mediterranean littoral, but also in the Persian Gulf (Gerrha) and among the Bahrein Islands (Tylos). As in Egypt, most of the internal trading was in the hands of the Semites, a Jewish race.

The commercial greatness of Babylon lasted many centuries, and conquests in turn by the Assyrians, the Persians (under Cyrus), and the Greeks (under Alexander), although these were not themselves particularly distinguished as commercial peoples, served only to extend her influence. For now many nations were brought into one empire ; communications were facilitated along the routes taken by conquering armies ; and law and order on the frontiers were promoted by the existence of a strong and unified rule.

Nevertheless, it is important to repeat the warning that has already been given. Among none of these ancient peoples was commerce an absorbing pursuit. The traffic with foreign merchants was almost entirely confined to the exchange of luxury commodities. The fabric of economic life was pastoral and agricultural ; there was only a very small commercial class and that was largely alien. But we have now reached a point at which we may consider the first truly commercial peoples of antiquity, the Phoenicians and the Carthaginians.

PHOENICIAN COMMERCE

In extent of territory and population, Phoenicia was insignificant. The country comprised a narrow strip of coastline lying between the mountains of Lebanon and Naphtali and the sea, about a dozen miles wide for the most part and 100 miles, or at the period of

its greatest extension about 200 miles, long. It is probable that the people came from an original home on the Gulf of Persia, and moved westward in early obedience to that law of human migrations, of the operation of which there have been evidences for the last three thousand years. Confined by their mountainous hinterland to the rugged coastal area, and secured from invasion on that side, the Phoenicians, an active, restless people, looked to the sea to carry them to power and wealth. The steep parallel valleys and ravines, descending westward from the uplands, formed numerous natural harbours along the coast, and the Phoenicians built their towns high up on the rocky promontories which separated them. Communications, except by water, were difficult. The food resources of the uneven, rocky territory sufficed only for a small population, but the forested slopes of Lebanon gave abundant timber for shipbuilding.

Tyrian Trade.

The earliest of the great cities of Phoenicia (about 1500 B.C.) was Sidon, but later she was displaced by Tyre, a little to the south, built first on an island and then extended to the mainland. The twenty-seventh chapter of the Prophecy of Ezekiel gives us a vivid picture of Tyre at the height of her commercial greatness, when she was threatened by the mighty power of Nebuchadnezzar, King of Babylon. The description sets in the first place the situation of Tyre "at the entry of the sea," a city which was "a merchant of the people for many isles." Next, her ships are celebrated: shipboards of fir trees of Senir; masts of cedars of Lebanon; oars made of the oaks of Bashan; "benches of ivory brought out of the isles of Chittim." The sails were made of "fine linen with broidered work from Egypt." The trade of Tyre was

said to be with merchants of Tarshish : “ with silver, iron, tin, and lead they traded in thy fairs ” ; with those of Javan, Tubal, and Meshech (in the adjacent seas) : “ they traded the persons of men (i.e. slaves) and vessels of brass in thy market ” ; with those of Togarmah (Armenia) : “ they traded in thy fairs with horses and horsemen and mules ” ; and with the men of Dedan : “ they brought thee for a present horns of ivory and ebony.” The Syrians carried on a trade with Tyre in “ emeralds, purple, and broidered work, and fine linen, and coral, and agate.” The people of Judah traded in wheat, honey, oil, and balm ; those of Damascus “ in all riches.” From Dan and Javan came “ bright iron, cassia, and calamus ” ; from Dedan “ precious clothes for chariots ” ; from Arabia “ lambs and rams and goats ” ; from Sheba and Ramah spices and precious stones and gold. Others were “ merchants in all sorts of things, in blue clothes and broidered work, and in chests of rich apparel, bound with cords, and made of cedar, among thy merchandise.”

Such were the goods which the Tyrians collected from the four quarters of their world and sold to the peoples along the Mediterranean shores. “ When thy wares went forth out of the seas, thou filledst many people ; thou didst enrich the kings of the earth with the multitude of thy riches and of thy merchandise.” Beginning with short coastal voyages to Cyprus (which was within sight), to Rhodes and to the islands of the Eastern Mediterranean, they gradually established trading ports in the Black Sea, the Aegean Sea, and later the Western Mediterranean. Crete, Malta, Sicily, Sardinia, and the Balearic Islands marked stages on the way to the Pillars of Hercules (Gibraltar). Thence they sailed into the Atlantic, founded a station at Gades (Cadiz), and pushing their way northward reached Cornwall, where they discovered valuable

deposits of tin ore, and the Baltic Sea, whence they obtained amber. From all these places the Phoenicians brought home raw materials for their manufactures, or finished articles to be marketed wherever they could be disposed of at a profit.

Tyrian Manufactures.

The home manufactures for which the Tyrians were most celebrated were the weaving and dyeing of cloth. From the shell of a mollusc—the *murex*—they obtained a creamy fluid which, being exposed to the light for a few days, assumed a purple tint, passing during this time through an intermediate range of colours, lemon, green, blue, violet, and red. At any point the process of gradation could be stopped, and the colour fixed. The dye was highly valued and Tyrian purple became the emblem of nobility and royalty. The prophet Ezekiel, addressing Tyre, said: “Blue and purple was that which covered thee.” Glass-blowing was another among the characteristic industrial arts of the Phoenicians, the materials being obtained from the sandy shores of the Levant.

Commercial Methods.

The Phoenicians preserved with jealous care the secrets of the industrial processes which they used, and aimed also at a monopoly of the sources from which they obtained the raw materials for their manufactures. Herodotus tells the story of the ship captain who, finding himself under observation, ran his vessel aground, in order to conceal his destination. On reaching Tyre, he was compensated for the loss of his ship. It is perhaps on account of this secrecy in their methods that our information regarding Phoenician commerce is so scanty. One other narrative of

Herodotus throws a light upon the standard of commercial honour which was reached by the Tyrian traders. "The Carthaginians¹ are wont to sail to a nation beyond the Pillars of Hercules, on the Libyan coast. When they come there, they transport their wares on shore and leave them, and, after kindling a fire, go back to their ships. Upon this signal the natives come down to the sea, and placing gold against the wares, again return. The Carthaginians then again approach, and see whether what they have left be sufficient. If it be, they take it and depart; should it, however, be not enough for their wares, they again go back to their ships and wait; and the other party brings more gold, until the strangers are satisfied. But neither party deals unfairly by the other, for the one touches not the gold till the value of the wares be brought, nor the other the wares until the gold be taken away."

Phoenician Colonies : Carthage.

The Phoenicians taught Europe the art of navigation, charting their courses by the aid of the stars. Their voyages were not guided by chance, but were organized to link up the factories or settlements of colonists which they established at every convenient spot. Each of these settlements or depots collected the produce of its hinterland and transhipped it in the Phoenician vessels. Carthage, the largest of these settlements, eventually outshone the mother city. Favourably situated at a meeting-point of maritime routes, she, too, sent out daughter colonies to the shores of Europe and Africa, and to the islands of the Mediterranean; in addition, she developed an inland commerce along caravan routes with Northern Africa towards

¹ Carthage was the most important of the colonies planted by Tyre.

the Niger on the south, and towards the Nile on the east.

Carthage affords a remarkable example of an early state consciously pursuing mercantile ends, that is to say, the regulation of commerce in the interests of political power, involving the regulation of industry, the reservation of markets, and the exclusion of competition, wherever by so doing national ends would be served. The colonies of Carthage were never allowed to grow out of economic dependence, and their consequent failure to succour the parent state in the great struggle with Rome may be paralleled in many an incident out of modern colonial history.

The Decline of Phoenicia.

The Phoenicians founded no empire of their own ; they were not a warlike people. Their cities were politically autonomous, though loosely bound together in a trade confederation. With their meagre population and the slender economic resources of their own territory, they were unable to build up a political power at all comparable with the great land empires under whose shadow they were content to pursue their peaceful calling. Their colonies were too remote, too isolated, and too independent to supply an element of military strength. One by one the maritime daughter cities of Phoenicia fell under the domination of the neighbouring land powers, covetous of the prestige which the command of a navy would give them. When the Greeks, with greater advantages of situation, began to enter into competition, imitating their methods of seamanship and colonization, the Phoenicians withdrew from station after station, and yielded control to their rivals.

Europe owes much to the Tyrian traders. In carrying their wares from one trading post to another,

they were also carrying civilization and culture. Everywhere industrial arts sprang up in imitation of Phoenician methods, and by the invention of an alphabet they not only facilitated the records of commercial transactions, but laid the foundations of the republic of letters as well.

CHAPTER III

GREEK AND ROMAN COMMERCE

It is said that there is not a hill-top in Greece from which it is not possible to catch a glimpse of islands and the sea. There is no country in Europe which has so many miles of coastline for every square mile of area. The fringe of islands is so thick that each one lies in full view of several others, and the sea passage from one to another is safe and easy. The country itself is deeply scored by valley and ravine, so that access from one district to another is usually easier by water passage than overland.

In many respects ancient Greece resembled Phoenicia. The conditions favoured the growth of many maritime city states, autonomous in government, but linked nevertheless by a common religion and by a sense of racial community, and sometimes politically federated into groups. Along the land frontier mountain barriers securely protected the country from inroads, and the people were consequently able to devote their whole energies to fulfilling their destiny as a nation of navigators and colonizers. To such a career their peculiarly intimate connection with the sea compelled them.

Debt of Greece to Phoenicia.

The evidence regarding the extent of the debt which the Greeks owed to the Phoenicians is somewhat confusing. But the Homeric epics testify to the high estimation in which the Phoenician wares were held by the early Greeks, and we learn from Herodotus that many of the characteristic industrial processes carried on by the Phoenicians were known also to their

successors. Although the latter ousted their rivals from their colonial settlements along the Mediterranean shores, there was usually no breach of continuity. Trade was necessarily based upon the natural products of the region. In its general features, therefore, Greek commerce was not unlike Phoenician. The chief difference, as has been well pointed out,¹ was in the purposes to which these two people applied the wealth which the pursuit of commerce brought them. For the Phoenicians had no political ideals and ambitions to which their wealth could minister. It was to them an end in itself. To quote the prophet once more : "*Thou hast corrupted thy wisdom by reason of thy brightness.*" They left behind no great works of the human spirit ; it is a remarkable fact that we do not know and honour any of them by name.

The Greeks on the other hand regarded material wealth as a means to an end. They used it as a foundation upon which to erect a political system which has been in some respects a model and an inspiration to statesmen ever since. In Greece, commerce was conceived in its proper relation to the life of the state, and ministered to ideal ends. The achievements of the Greek intellect have scarcely been equalled by the products of human genius in any subsequent age. They devoted their material resources to the endowment of art, science, and letters, and bequeathed to the world temples and sculptures of unmatchable beauty, and a literature into which scholars for two thousand years have delved as into an unfathomable mine of pure gold. We know the Greeks as we know no other nation of antiquity ; indeed, with some of their great ones we may become, if we wish, on terms as intimate as with any in the history of our own nation.

¹ Cunningham : *Western Civilization, Ancient Times*, pages 69-72.

The Expansion of Greece.

While Phoenicia faced entirely westward, the peninsula of Greece had an eastward as well as a westward outlook. It was on the eastward-facing coast that the chief developments took place ; firstly, for the reason that it was from the east that the earlier Oriental cultures spread across the Levantic and Aegean islands to the mainland of Europe ; and, secondly, because the best natural harbours were on that side, the western coast being for the most part rock-bound. Consequently, the earliest commercial relations of Greece developed with the opposing coastline of Asia Minor. Thither, using the islands of the Aegean Archipelago as stepping-stones, emigrants from the Greek cities carried their culture, their commerce, and their civic organization, and there they established a score of commercial centres, among which Miletus, Susa, Smyrna, Ephesus, Samos, Mitylene, Chios, and Rhodes were the most flourishing. They sailed also through the Dardanelles and the Bosphorus into the Black Sea, whence the Athenians obtained their chief wheat supply when home production became insufficient for the expanding population. It was from these Greek Asiatic cities that the westward rebound took place. The colonists spread now to the most distant shores of the Mediterranean, and about the year 600 B.C. settled in Southern Italy and Sicily, at Marseilles (Massalia), and Malaga, and along the coast of Africa (Cyrene). At the same time Greek influence began to affect Egypt and Alexandria in the south, and the Lower Nile valley and delta grew to be an important link in the commerce of east and west.

These factories and colonies, though more closely bound to the mother country than the Phoenician settlements had been, were very similar in respect

to their economic relations. Each of them became a point of support from which the material resources of the hinterland could be exploited. Each of them, too, having reached a certain stage of development, in turn sent out daughter colonies. Miletus sent her citizens to the shores of the Sea of Marmora, to Sinope, and to Trapezus on the Black Sea. Chalcis sent her sons north-eastwards and north-westwards to Thrace and to Illyria. Some of these sailed even beyond Sicily and established a settlement at Cumae on the Italian peninsula. An expedition of colonists from Phocaea passed beyond this point and settled at Massalia, where they found themselves in competition with Carthage. The link between mother-state and daughter-colony was a very real one. The civic organization was transplanted, the colonists sharing the political privileges of the citizens of the parent city. There was a close tie of affiliation. "It was as if one could start from no port besides Miletus in order to proceed to Sinope, and from Phocaea alone in order to reach Marseilles."¹

The City-States of Greece.

The leadership of the early Greek world was in the hands of the merchants of the tiny island of Aegina, off Athens. Later, Corinth, favoured by her situation on the isthmus, having a harbour on either side, attained to an even greater commercial development. Tradition says that the Corinthian mariners were able, by means of rollers and capstans, to haul their ships across the isthmus from one sea to the other. Most of the settlements on the western coast of Greece were daughter colonies of Corinth, and in particular an important trade grew up at Corfu.

During the fifth century B.C. the Athenians wrested

¹ Cunningham : *Western Civilization, Ancient Times*, page 89.

the maritime supremacy from Aegina, and their city became for nearly two hundred years the most important commercial centre in the Eastern Mediterranean. This was the period during which literature, art, and philosophy flourished ; it was the age of Pericles and Socrates, of Plato and Demosthenes. But internecine strife among the city-states of Athens, Corinth and Sparta sapped their strength, and they were unable to withstand the onslaughts of Philip of Macedon and his son, Alexander. The newly-founded city of Alexandria, at the mouth of the Nile, rapidly assumed the leadership and developed a most important entrepôt trade between India and the Mediterranean. Other great commercial cities founded by Alexander were Seleucia and Antioch, which profited by the revival of eastern commerce.

Greek Agriculture.

In early times the soil of Greece was owned by yeomen farmers ; the country then was not only self-sufficing in regard to food supply, but was able to export a surplus of wheat. With the growth of urban population, the question of food supply became gradually more acute. Solon, the great law-giver, in order to ensure abundant and cheap supplies, prohibited the export and encouraged the import of wheat. This policy led to the impoverishment of the peasant proprietors, who soon found themselves at the mercy of moneylenders, their lands mortgaged, and redemption impossible. Many of them deserted their holdings and migrated to the cities where they swelled the ranks of the wage-earners. Solon, by a process of currency inflation, which lowered the money value of the debts of the yeomen, attempted to restore their economic freedom, but was not successful. Their small-holdings were purchased by speculative capitalists, who

consolidated them into large estates which they farmed by slave labour, with a view to profit rather than to the maintenance of a free and independent peasantry. Athens thus became dependent, as Great Britain is to-day, on imported food, and her whole trade policy was henceforward aimed at ensuring for her city population an adequate supply from outside sources.

Greek Industries.

The majority of the wage-earners in the cities were freemen. They carried on their crafts in their own domestic workshops, as the handicraftsmen of Great Britain did before the factory system established itself in the eighteenth century. There were a certain number of public slaves who were employed in the mines, quarries, harbours, and granaries which were owned by the community and worked for public profit ; there were others employed in the erection of the great public buildings such as the Parthenon. Moreover, much of the domestic service in the homes of the wealthy was carried out by slave labour. It would not be safe to accept the "rude mechanicals" of Shakespeare's *Midsummer Night's Dream* as in any degree typical of Athenian workmen. Yet, though the names which the dramatist assigned to them suggest rustic England rather than civic Athens, their occupations no doubt were represented among those followed by the handicraftsmen of Athens. The weaver and the tailor, the carpenter and the joiner, the bellows-mender and the tinker, being workers in wool, wood, leather, and metal, are wellnigh universal. More characteristic was the ceramic industry ; Greek pottery and terra-cotta were important articles of export to all Mediterranean countries. Shipbuilding and boat-building and repair were thriving industries in every creek and harbour. The secrets of metallic

alloys were jealously guarded by associations of workmen. Bronze and brass were used for statuary, domestic utensils and furniture, weapons and armour. Iron first came into common use among the Greeks. Gold (from Thrace) and silver (from the public mines at Laurium) were employed for ornament.

Greek Finance.

But the chief claim of the Greeks to a place among the nations who have promoted commerce is based, not upon their industries, but upon the advances they made in the machinery of exchange. They were the first people to replace a natural economy by a money economy. In all concerns of the State coined money came to be used. Taxes were paid in currency instead of by service. Money-wages took the place of labour dues. Rents were paid in money instead of in kind. Greece saw the beginnings of capitalistic farming, industry, and colonial exploitation. Banking and insurance agencies sprang into being. The merchants of Rhodes framed a code of mercantile and maritime law, which added enormously to the security of property and the inviolability of commercial contracts. By the organization of markets and fairs (usually, as in Mediaeval England, in connection with religious festivals), trade and industry were stimulated. In Greece, business organization and civic institutions developed side by side, each of them contributing in its special way to the unfolding of human personality and to the attainment of the "good life."

ROME

Rome and the Western Mediterranean.

Reference has already been made to the growth of Carthage, a colony of Tyrians, which extended its commerce along the African shore as far as Gibraltar

on the one side and Cyrene on the other, to the islands of the Western Mediterranean (Sicily, Sardinia, and the Balearics) and even to the opposing mainland of Spain, Gaul, and Italy. Carthage was altogether a maritime power ; she founded no land empire ; “ her home was on the waters.” But the Carthaginians found themselves involved in conflict with the growing imperialism of Rome. As might have been expected, the earliest battle-ground was Sicily, which lay on the path between the two cities. For a long time the struggle continued without decisive result. The naval strength of Carthage could not easily measure itself against the military strength of Rome. The contest was not unlike that between Nelson and Napoleon, in which for a considerable time French domination of the continent was balanced by English control of the encircling seas. The position was one of stalemate.

The coastline of Italy did not favour the growth of a nation of navigators such as the Phoenicians and the Greeks. Of the arts of navigation and shipbuilding the Romans were ignorant until stern necessity became their tutor. In the eyes of a Roman citizen the profession of the mariner ranked as low as the occupation of retail buying and selling, which they were content to leave to aliens. “ The ambition of the Romans was confined to the land ; nor was that warlike people ever actuated by the enterprising spirit which had prompted the navigators of Tyre, of Carthage, and even of Marseilles, to enlarge the bounds of the world and to explore the most remote coasts of the ocean. To the Romans the ocean remained an object of terror rather than of curiosity.”¹

At first Rome had to compel conquered maritime cities to provide her with ships to engage the naval power of Carthage. Victory was delayed until her

¹Gibbon : *Decline and Fall of the Roman Empire*, Chapter I.

citizens realized that, notwithstanding the repugnance they felt towards navigation, a strong navy was a prime necessity. Rome itself was, in fact, not well situated for direct maritime trade, being some twenty miles from the mouth of the Tiber, a river with a rapid current on which navigation was made perilous by shifting sandbars. The port which served Rome during the Republic was Puteoli, seventy miles away, from which goods were conveyed to the city by road. Later, the docks of Ostia at the mouth of the Tiber were constructed at enormous expense; moles were built out into the sea, providing safe anchorage and every convenience for the discharge of cargoes.

Roman Law and Order.

The greatness of Rome was based not upon commerce but upon efficient political administration. The Romans were the apostles of law and order; they established over the whole of their dominions the *Pax Romana*, by which is implied "the rule of law" and universal respect for ordered progress. Though not themselves possessed of the instincts of commerce, they created the conditions in which alone commerce could develop. Neither were they innovators in the industrial arts; they were content to borrow and to disseminate among the peoples under their wide sway the culture they derived from the Tyrians and the Greeks.

Character and Direction of Foreign Trade.

The exports of Rome were inconsiderable. The balance of trade was tilted heavily on the side of the imports. For the Romans drew tribute in money and in kind from all the subject peoples of their empire. They received payment for their services as administrators in Gaul, in Spain, in Italy, in Greece,

in Asia Minor, in Egypt, in Africa, and in Britain. All roads led to Rome, and along each flowed a constant stream of choice wares for the delectation of the wealthy citizen. "The most remote countries of the ancient world were ransacked to supply the pomp and the delicacy of Rome."¹

A conspectus of the sources from which Rome drew her imports will serve to indicate the contemporary economic condition of many regions which contributed to the wealth of the metropolis. Spain was perhaps the largest seat of foreign trade. From her mines came ores of silver, gold, copper, lead, and iron, shipped in Cadiz, Cartagena, Saguntum, and Bilbao. From the Spanish vine and olive groves came wine and oil, fruits, honey and wax. Other products were corn, salt, horses, wool, and vermilion. Next to Spain, the provinces of Gaul provided large quantities of similar goods, shipped chiefly at Narbonne and Marseilles. The products of Britain reached Rome by the same route. They included, in addition to many of the products already enumerated, linen and leather, pearls and oysters, cheese and salt pork. From the Alpine region to the north came resin and pitch; Germany and the distant Baltic contributed amber, furs, and slaves.

The chief eastern cities trading with Rome were Alexandria, Corinth, Antioch, Smyrna, Ephesus, and Miletus. The principal imports from Alexandria were grain and coloured glass, but in addition Egypt supplied flax and cotton, salt, gums, papyrus, embroidered cloths, marble and alabaster. Greece and the islands of the Aegean Archipelago supplied horses, earthenwares, coloured marbles, dyes, and cambrics. Athens and Corinth exported perfumes and bronze; Cyprus copper and figs. From the Black Sea ports came fine

¹ Gibbon : *Decline and Fall of the Roman Empire*, Chapter II.

wool, pitch, hemp, wax, hides, furs, emeralds, and slaves. Tyre and Sidon sent purple, glass manufactures, cedar-wood, and rich embroideries. From the Far East, from Arabia, Persia, India, and China, Alexandria collected and re-exported to Rome spices and incense, pearls, precious stones and metals, silks and furs. Cyrene and the ports of Northern Africa were markets which collected the products of the interior: horses, lions, and elephants for the gladiatorial contests, ivory, ostrich feathers, gold, and slaves. In addition, Rome drew from the Italian peninsula itself numerous products: corn from the northern plain, timber from Etruria, marble from the Appenines, honey from Hybla in Sicily. Fish was a popular food, and the tunny and many edible species from the Mediterranean were in considerable demand among all classes.

From the quantity of merchandise which flowed into Rome, it may be conjectured that the city was inhabited by an enormous population, and that the standard of consumption was high. Gibbon estimates the number of inhabitants at 1,200,000. Alexandria, the second city of the empire, numbered a million. The continued existence of such large city populations implies a high degree of administrative efficiency. Along the roads which the Romans built to connect the mother city with the most distant provinces, the decrees of the government went forth swiftly and surely. The roads were the veins along which the life-blood flowed from the mighty heart of Rome to the remotest members.

The support of numerous provincial governors and armies, the regular institution of posts to facilitate travel throughout the empire, and the construction of costly public works—such as harbours, canals and aqueducts, theatres, stadiums and baths, temples,

porticos and triumphal arches—all these, however, “conducive to the health, the devotion and the pleasures of the meanest citizen,” could not be paid for without a heavy burden of taxation. The Roman emperors introduced customs and excise duties to provide the revenue which was requisite for such costly projects. Luxury imports were liable to an *ad valorem* duty of one-eighth, articles of necessity to one-fortieth. Excise duties were levied on all manner of retail purchases. At a later date, a 5 per cent duty on legacies and inheritances was introduced. To encourage the importation of corn, of vital necessity for the inhabitants of Rome, bounties were given to shipowners carrying cargoes of wheat, especially in winter, and there was even a system of guaranteed profits.

Economic Decline.

In the collection of the public revenue there was great wastage, for the system of farming the taxes was universal. Moreover, there was a steady drain of specie, especially silver, to Arabia and India, in payment for luxury imports, such as silks and spices. It is said that a pound's weight of silk was paid for by an equal weight of gold. The export of precious metals went on to such an extent that the resources of the public mines were taxed to the utmost, and the emperors had to resort to debasement of the currency to get the wherewithal to pay the wages of their troops. Silver soon fell to the rank of a token coinage. Financial crises were frequent and the resources available for industry diminished. The capital which should have been used in productive consumption (that is, in the purchase of commodities which would have helped to create future wealth) ran to waste in unproductive channels. A great deal of treasure was sunk in

magnificent buildings which contributed nothing to public revenue, but involved further outlay for maintenance. Industrial capital was not adequately replaced, much less added to. Those who could obtain gold or silver, knowing that the precious metals were becoming scarce and expecting their value to appreciate, preferred to hoard rather than to invest. The deficiency of trading capital checked development and led to a fall in profits. At the same time, enterprise was discouraged by excessive taxation.

Notwithstanding an outward appearance of prosperity in Rome due to accumulated wealth, economic decline inevitably set in. Ostentatious display by the nobility and the successful capitalists drew attention away from the ruin of the industrial middle classes. The lower orders of freemen, lacking employment (for in the large public works slaves only were employed), were pauperized and demoralized by the grant of daily doles of bread, bacon, and oil. They idled away their time viciously at the magnificent marble baths which were constructed in every quarter of the city, and were kept amused by gladiatorial games and sensational spectacles provided at the public expense, or at the private charge of ambitious politicians or generals vying with each other for popular favour. Long before the armies of the Gothic barbarians appeared before the walls of Rome, her fate was sealed ; for the vitality of her people was spent, and their public spirit had given place to a selfish craving for ease and pleasure. Their love of independence was lost, and their passion for organization had degenerated into indifference, inefficiency, and corruption.

The Barbarian Invasions.

The westward migrations of the Teutonic peoples, from about the third century A.D., called for increasing

vigilance over the whole extent of the long northern frontier of the Roman Empire. The energies of the great Emperors Constantine, Julian, and Valentinian were expended in trying to stem the barbarian flood which threatened to submerge the civilization so patiently built up for five or six centuries. On the heels of the Teutons pressed the Huns under the terrible Attila. Before him fled the Goths who, crossing the Danube, made the first breach in the defences of the Empire. As the lines of communication with distant provinces were severed, the Roman governors and their armies were hastily withdrawn for the defence of Italy. The provinces were left to their fate, and they sank back into barbarism, bewildered and helpless, an easy prey to the fierce marauders swarming from the east. These, a generation later, attacked and seized Rome itself. They were followed by the Vandals, whose generals, though totally alien in tradition and character, seated themselves in the thrones of the Caesars and assumed the imperial titles and honours. These invaders belonged to a lower order of civilization. They were not city-dwellers and had developed none of the arts of commerce. Under their rule there was a general decline in public order. The barbarians, having no particular use for the roads, allowed them to fall into disrepair. Social order gave way to chaos, the *Pax Romana* to perpetual warfare. The foundations of civilization and commerce had to be laid anew.

CHAPTER IV

THE EARLY MIDDLE AGES

AFTER describing the break-up of the Roman Empire, and the passing away of the elaborate structure of administrative order and commercial regulation which fused the countries surrounding the Mediterranean Sea and some more distant lands into a single economic unit, the historian of commerce has to make a fresh beginning. There is, indeed, one thread of continuity, for the greatness of Rome was transplanted to a new metropolis.

Constantinople.

In the year 323 the Emperor Constantine removed the seat of government from Rome to Byzantium, now renamed Constantinople, where Europe meets Asia and West merges into East. The situation of the new imperial city rendered it eminently suitable for an entrepôt trade; as a maritime centre it supplied all the deficiencies from which Rome had suffered. It drew its strength from Egypt in the South and from the shores of the Black Sea in the North; from Mediterranean lands in the West and from Asia Minor in the East. Its peninsular situation rendered it impregnable, and for a thousand years it held firm against wave after wave of barbarian attack. Here the civilization of Rome lived on proudly long after the Goths and Vandals had trampled down its greatness in the West.

Within less than a century from the date of its adoption as the seat of government, Constantinople almost equalled Rome in size and importance. Justinian, the codifier of Roman law, not only embellished

the city with temples, monuments, public buildings, and gardens, but stimulated its commerce and industry by introducing the culture of the mulberry and the manufacture of silk, and by encouraging intercourse with the East. While the West was so poor that even the rich in their castles lived in conditions which no sanitary authority to-day would permit to exist in the humblest cottage, there were widely diffused in the metropolis of the East not only the comforts and amenities of civilization, but even a high degree of refinement and luxury. An active commerce brought untold wealth to the city; science and industry flourished; literature and art had many patrons. In contrast with the rude manners and unbridled violence of the West, we find a polished intercourse and a highly developed code of social etiquette. Under the rule of Justinian, Syria regained much of the prosperity she had enjoyed in the days of the Phoenicians, and the Jews came to the front as a commercial nation. Constantinople succeeded in withstanding the onslaught of the Mohammedans who overran Syria in the seventh century, and its prosperity grew as fast as that of the cities of the West declined. From the eighth to the tenth century it was by far the most important commercial centre in Europe. It maintained its independence against the Scandinavians, the Muscovites, and the Normans. The city benefited greatly by the commercial activity awakened by the Crusades, but succumbed to the Venetians in 1204.

New Forces at Work.

Constantinople serves, therefore, to bridge the gap between imperial Rome and the nation states of mediaeval Europe. "It inherited and it retained the great Roman traditions of centralization, of scientific jurisprudence, of elaborate and systematic

administration. It worked upon an unbroken experience of government, on unbroken habits of organization, as familiar and easy to it as it was difficult in the West.”¹ But it is none the less necessary to inquire how it came about that commerce revived in those lands where the memory of Rome had all but disappeared. This is altogether a different story. The characters are not the same ; the scene is not the same. Nevertheless the old names often survive ; there is still a Roman Emperor and a *Pontifex Maximus* ; superficially there still exists a unity which recalls that over which Rome had presided. But the meaning of the names has changed. New forces have commenced to operate, to which we shall have to give due regard when we try to lay bare the springs of action.

Among the new forces which were reshaping the civilization of Europe, two only will be mentioned, namely, organized Christianity, and the sentiment of nationality. Of these, the former was a unifying influence, the latter a disintegrating force. Priesthood was a universal order, and Latin, the language of the Church, was current all over Europe as the language of scholarship, of law, of diplomacy, and of commerce. In so far, therefore, as Christianity had anything to say about the economic concerns of men, its teachings were as authoritative in Ireland as in Illyria, and the merchant of Valencia guided his actions by the same code of commercial rectitude as the merchant of Venice.

Christianity and Commerce.

The central doctrine of mediaeval commercial theory was that of a “just price.” The exchange value of commodities was governed, not as in modern competitive

¹ Church : *Beginning of the Middle Ages*, pages 117-118.

commerce by the fluctuations in supply and demand, but by an ethical principle. In common estimation, a sentiment which arose out of a consensus of opinion among honest craftsmen and merchants, every commodity had a reasonable price ; to attempt to buy it for less, or to sell it for more, was an offence against Christian morality. "Whoever buys corn, meat, and wine in order to drive up their price and to amass money at the cost of others is, according to the law of the Church, no better than a common criminal," said a fifteenth century moralist.¹

The practice of buying cheap and selling dear in the same market was called "regrating," and the attempt to make a profit by cornering a stock of goods before the market was properly open, and so establishing a temporary monopoly, was called "forestalling." Regraters and forestallers were equally offenders against the business morality of the Middle Ages, and the regulations for the holding of fairs and markets were designed to make their operations as difficult as possible. In fact much of modern mercantile law (e.g. that relating to the law of purchases in *market overt*) is derived from the practice of mediaeval merchants in their efforts to secure that all transactions should be governed by the "just price."

Closely associated with this conception was that of the ethical obligation resting upon the craftsmen to supply good material and good workmanship. The gild system was designed to maintain among the members honest standards of quality and craftsmanship. Public opinion within the gild was powerful enough to compel the individual to conform to the traditions of the corporate body. Gild officers were empowered to enter a weaver's workshop to inquire

¹ Trithemius, quoted in *Mediaeval Contributions to Modern Civilization*. Ed. Hearnshaw, page 246.

into the grounds of an allegation that cloth was being stretched or that inferior wool was being woven into the fabric. The punishment might take the form of a fine paid to the charity box of the gild, or, in an extreme instance, expulsion from membership of the "mistry," which meant that the offender forfeited the right to exercise his craft within that town or any other in affiliation with it.

A further corollary of the ethical doctrine of a just price for a just article was the idea of a fair wage. Labour, too, had its just price. To the mediaeval mind, there was something un-Christian about an attempt on the part of employer or labourer to take advantage of some chance circumstance to drive a hard bargain with the other. The fair wage had relation to the level of general prices, and accordingly it was customary to fix the remuneration of labour by statute or local regulation. There was no wage warfare save in periods of exceptional stress ; for example, in the years following the Black Death in England, when a social catastrophe of unexampled magnitude for a moment rendered old wage standards obsolete, and made it necessary to readjust the economic scale and index.

Mediaeval View of Usury.

Canon Law had something to say, also, regarding usury. To lend to another, expecting to receive back not only the thing lent but something in addition, was condemned as base cupidity. "For when did friendship take a breed of barren metal of his friend?" The Christian precept: "Lend, hoping for nothing again," was held to make the acceptance of interest on loans sinful. True, there were exceptions ; for if, in making the loan, the lender suffered actual loss by the deprivation of that which might have yielded him

advantage, it was allowed that he might legally and morally consider himself entitled to compensation. Usury was condemned on the ground that the usurer commonly took advantage of another's necessity ; but where the loan was in the nature of an investment, and the borrower deliberately exposed the capital of another to risk for the sake of his own profit, then also compensation to the lender for risk was allowable. Further, it seemed reasonable that a borrower who failed to repay a loan on the date agreed upon, should suffer a money penalty proportionate to the amount of the loan for his unpunctuality. Thus, gradually, as the field for investment opened up, the Christian repugnance to the taking of interest weakened, and the strict rule was squared with the necessities of the business world. Under the rule of Roman law, the exaction of interest on loans had always been permitted ; now Canon Law also admitted exceptions.

The Jews.

The prohibition of usury by the Christian Church did not affect the Jews, who were quite at liberty to charge interest for loans. For this reason the business of money-lending in mediaeval times fell entirely into their hands. Notwithstanding popular conceptions, the Jews were not originally a nation of merchants or financiers. In their earliest home their chief occupation was pastoral and agricultural, and even down to the time of the Roman Empire they were of little account in the world of commerce. But after their dispersion over Europe, they came into conflict everywhere with the Christian peoples. They were held to be outside the law, enjoying none of the privileges of citizenship, being mere chattels of the sovereign under whose protection they lived. Their property was the King's ; he could tax them as he pleased, being careful

only in his own interest not to crush them out of existence. In mediaeval towns they were assigned special quarters (called Jewries). They were not permitted to share in the corporate life of the guilds, and they were forbidden to hold real property. Harassed by restrictions and embittered by persecution, they confined themselves more and more to those occupations in which they would not be brought into direct competition with Christians; in particular, they developed the business of money-lending, where they had the field to themselves. Their genius for finance was of the greatest use to mediaeval princes. Nevertheless, royal protection did not save them from the hatred of the people. Popular clamour at last grew to such a pitch that the Jews were expelled from one country after another. Driven from France, England, and Spain, the Jew once again became a wanderer in the East. He found a new home in Egypt, in Asia, or in Russia. Not until the time of Cromwell were the Jews again permitted to settle in England. Gradually they won their way to complete citizenship, and by reason of their astonishing business instinct, have played a very large part in the development of modern commerce and banking.

The Rise of Nation-States.

The second of the two forces by which society in Europe was being remodelled in the Middle Ages was the sentiment of nationality. By the force of arms the Romans had imposed a common culture on all territories beneath their sway in Europe, Asia, and Africa. The political and economic life of all lands comprised within the Empire was stamped with a single impress. Each rendered to Caesar the things that were Caesar's. In the Middle Ages, as we have seen, the Empire and the Papacy gave to Western

Europe a like universality. European society was divided into occupational grades. The priest, the warrior, the merchant, the labourer, to whatever country he belonged, conformed to a type. But as the authority of the Empire and the Papacy declined, the feeling of nationhood grew. Men became keenly conscious of being Frenchmen, or Flemings, or Castilians. The brotherhood arising out of a community of interest which had linked together the merchant of Southampton with the merchant of Genoa, gave place gradually to a conflict of interest arising out of their separate political allegiance.

The organization of commerce was profoundly affected by this change. National economies sprang into existence to reinforce the diplomatic strategy of the young nations. Trade came to be regarded as one of the means whereby political power was built up. By regulation and restriction its courses were guided so that they might contribute to a nation's strength. Commerce was, in fact, an arm of national offence and defence. The commercial relations between rival nations became the subject of elaborate agreement, and international treaties were increasingly concerned with economic questions. The rise of national economies was most rapid at the close of the Middle Ages and will come in for fuller treatment later. It is here referred to so that the reader may have in mind the general drift of commercial development, and be in a position to relate isolated facts to a general principle.

The Manorial System.

The chaos which succeeded the break-up of the Roman Empire in the West was due to the fact that Europe lacked an intellect to direct, and a will to control, her destinies. The decay of roads was like

an atrophy of the nerves. A deadly paralysis followed. No longer did impulses flow swiftly outward to the limbs or inward to the brain. The organism fell asunder into its constituent cells and each had to build up for itself once again a new structure to support the functions of civilized life.

The nuclei around which the new social organism developed were the feudal communities called manors. These were independent, self-centred, and self-sufficing units of society. Composed each of a score or so of families, they derived their sustenance from the open fields which surrounded their homesteads. They owed allegiance to a lord whose demesne-land they cultivated and to whom they paid customary dues in kind. Their life was governed by routine; they were "bound to the soil." But the villeins were protected against oppression by the custom of the manor interpreted in the manor-court. There were, indeed, serfs or slaves, the mere chattels of the lord, enjoying no customary rights, and having no privileges of tillage or pasturage in the open fields. But even these enjoyed a certain security, for it was clearly to the interest of the lord to maintain his property in sound condition, whether in the form of land or of human beings.

Economic Structure of the Manor.

The manor was a self-contained, economic unit. It aimed at producing all that was required by its inhabitants: food, clothing, and shelter. The people carried on in their dwellings the primary arts required to support life: the conservation and preparation of food, the care of animals, the weaving of cloth. There was little specialization of occupation. Occasionally a smith or a carpenter, more often a miller, did for the villagers what they could not easily do for themselves. But as a rule any one household within the manor was,

in relation to any other, almost as independent and self-sufficient as the manor as a whole in relation to its neighbours.

In such circumstances it is clear that there could have been but a low standard of production. The implements of husbandry were crude and the land yielded poor crops. The cattle and sheep were miserably thin and small-boned, and owing to the scarcity of fodder most of the animals that could be stored through the winter, not being required for stock, were killed off and salted in the autumn. This resulted in a shortage of animal manure, and in order to prevent the exhaustion of the soil, it was necessary to allow one-third of the arable land each year to lie fallow. Undrained marshes further diminished the area available for cultivation.

Economic life was maintained, therefore, at a very low ebb. Disasters, such as famine and pestilence, which resulted from the isolation of communities, the impurity of water supplies, and a lack of the knowledge and of the means of sanitation, were attributed to divine displeasure. Ignorance and superstition held the mediaeval mind in an iron grip. The stranger was looked upon with fear and suspicion. While the servile populations of the countries which had once formed part of the Roman Empire were sunk in poverty and ignorance, their lords were for the most part waging war upon one another. Since there was no power strong enough to enforce order and obedience, the military classes turned Europe into a bear-garden. Private quarrels, instead of being submitted to judgment according to law, were settled by combat. Blood feuds harassed for generations the peace of society. Until commerce should arise again to break down the isolation and widen the horizon of village life, and to restore a tradition of law and order, the Church alone

remained as a civilizing influence among the people of the "Dark Ages."

The Revival Under Charlemagne.

It was impossible for commerce to revive until political order was re-established. It appeared for a moment that Charlemagne, who was crowned Emperor at Rome in the year 800, would succeed in restoring the rule of authority. His enlightened policy resulted in the restoration of communications, especially in the districts served by the Rhine and Danube. For a time agriculture, commerce, and manufacture all revived. Charlemagne made some approach towards a system of weights, measures, and currency, which seemed likely to promote trade in Western Europe, where the Roman units and methods of calculation which survived in some places were complicated by barbarian usages.¹ This attempt to achieve uniformity is interesting, because his division of a pound's weight of silver (*libra*) into twenty *solidi* (or shillings),² and each of these into twelve *denarii* (or pence) is the origin of the present English currency reckoning ("£. s. d.").

The earliest commercial treaty in English history was made between Charlemagne and Offa, King of Mercia. It afforded a mutual guarantee of safe conduct for pilgrims and merchants. "Concerning the strangers, who, for the love of God and the salvation of their souls, wish to repair to the threshold of the Blessed Apostles, let them travel in peace without any trouble. Nevertheless, if any are found among them, not in the service of religion but in pursuit of gain, let them pay the established duties at the proper places. We also will, that merchants shall have lawful protection in

¹ See Cunningham : *Western Europe (Modern Times)*, page 50.

² Probably the "solidus" was not actually coined, being used only as a measure of value; in early England the pound was actually divided into 240 silver pennies.

our Kingdom according to our command ; and if they are in any place justly aggrieved, let them apply to us or our judges, and we shall take care that ample justice be done to them."

But the revival did not last long. On the partition of the Carolingian Empire, disorder reigned once more. In the period between the death of Charles the Great (A.D. 814) and the year 1000, civilization in Western Europe fell to its lowest ebb. Central government totally collapsed. Roman cities, once flourishing, were reduced to the direst poverty. They lost their character as towns carrying on an active trade and possessing self-governing institutions, and reverted to the condition of villages. London, for example, lost whatever importance it had under the Romans, and tumbled into ruins.

Feudalism.

In the tenth and eleventh centuries feudalism came into existence as a new system of social and political order. Military leaders undertook to give armed protection to retainers in return for services rendered, themselves accepting vassalage under a superior lord on similar terms. Thus there arose a gradation of social ranks, with the king as the territorial overlord, supported by the greater tenants as these were by the lesser. Below them all came the servile classes "bound to the soil," rendering labour dues instead of military aid. Sometimes the nobles used their power to set themselves up in strongholds as petty tyrants, and defied the attempts of the kings to restore central authority. But usually the punctual observance of feudal obligations brought back into the political life of Western Europe the idea of authority and discipline, and so the foundations were laid once more for a higher organization of society.

The Mohammedan Power.

While in the West men were thus struggling painfully upwards towards social order, and commerce was almost extinct, there were, as we have already seen, cities in the East as magnificent as any until then conceived by man. But the Graeco-Roman city of Constantinople was not alone in its magnificence. The seventh century saw the astounding rise of the Mohammedan power. Within a few years the semi-barbarian tribes of the Arabian desert had made themselves masters of Syria, and Jerusalem, Antioch, and Damascus were wrested from the Eastern Empire. Soon Alexandria fell and Egypt was lost. Thence the conquering Saracen hosts spread over Northern Africa, beyond Cyrene, beyond Carthage, until they arrived at the Straits of Gibraltar. Crossing over, they gained a foothold in Spain, which in a few years they overran. They pressed on into the territory of the Franks, and not until Charles the Great met them at the great battle of Tours, in 732, were they fought to a standstill. Then the tide of Moorish conquest ebbed. The invaders were driven back into Southern Spain, but were not dislodged from that country for another seven hundred and fifty years.

Eastwards the advance of the Mohammedan power was checked at the very threshold of Europe. Constantinople resisted the tremendous onslaught and maintained her resistance for eight hundred years. Under the Mohammedans the ancient glories of the cities of the Orient revived and their commerce became extraordinarily active. In the East, their greatest commercial cities were Baghdad and Damascus, Alexandria and Cairo. In the West, the largest centres were Cordova, the Moorish capital in Spain, Granada, and Seville. East and West were closely linked by commercial ties, and along the sea routes of the

Mediterranean and the land routes of Northern Africa there was a lively interchange of natural products and manufactures throughout the Empire.

The Mohammedans were an intellectual race. They developed scientific, mathematical, and geographical knowledge to a high degree, organized their agriculture systematically by the use of irrigation and fertilization, improved communications by deepening river channels and by constructing roads, bridges, and water wells in the deserts, and invented many new manufacturing processes.

Baghdad.

The glories of Baghdad are symbolic of the commercial greatness of the Mohammedan Empire. The time of her greatest prosperity was about A.D. 800—

In the golden prime
Of good Haroun Alraschid

who was a contemporary and friend of Charlemagne. The city then numbered a million inhabitants and was enormously wealthy. Probably no city ever equalled Baghdad in the number and splendour of her palaces and gardens. The bazaars were stocked with every luxury that the rich East could furnish, and in the workshops of her artisans the precious metals, the rarest stones, and the most costly fabrics were worked into jewels and garments of wonderful beauty. The glories of Baghdad excelled even those of Babylon, for she drew her wealth from a wider area. The earlier city had flourished on the resources of the East, on Egypt and India, on Syria and on Armenia. But Baghdad drew upon the whole of the Mohammedan Empire ; Fez in Africa and Cordova in Spain contributed no less than Mosul and Samarkand.

CHAPTER V

THE LATER MIDDLE AGES : SOUTHERN EUROPE

WHILE the structure of organized society in the West was tumbling into ruins, the Church continued to afford a permanent and stable base upon which it might be re-erected. The monasteries were important centres of economic activity in the eighth and ninth centuries. The monks carried on many industrial arts, using materials provided by the monastic farm or purchased elsewhere, and selling any surplus beyond their own requirements. While the manor was an isolated unit, and movement from one to another was infrequent because unnecessary, there was, 'on the other hand, considerable traffic between monasteries, even between those situated in different countries. The monks were usually immune from liability to tolls. There was every reason, therefore, why the monasteries should become centres of business activity, and we find, in fact, that a considerable volume of trade was carried on by the "negociators" or agents who conducted on behalf of the abbots their external commercial operations. The wine trade of Bordeaux and the woollen trade of Flanders, for example, were first developed by these early commercial travellers. The monastery thus often became the nucleus of a township.

Growth of Towns.

It is important here to note that a town is something more than an overgrown village. The important characteristic is not size, but function. A community, however large, whose members are wholly employed in agricultural pursuits, constitutes a village ; but when

a considerable number of the inhabitants find occupation in the specialized business of buying and selling, and practice industrial crafts, the village loses its original character and becomes a town.

It was not until a very late stage that towns became *wholly* engaged in trade, commerce, and manufactures. Wherever routes converged, e.g. at a ford (Oxford), or at a bridge (Cambridge), or at a confluence of rivers (Coblenz), or at the entrance to a mountain pass (Besançon), or at a point on a coast-line affording safe harbourage (Cadiz), conditions were favourable to the growth of a town. For at such places merchants were constantly meeting one another; consignments of goods frequently "broke bulk"; money came into use; and in ministering to the needs of travellers a number of craftsmen (for example, smiths and saddlers, tinkers and tailors) found ready employment. Sometimes the centripetal motive was the need for protection, and the community took root around the walls of a feudal castle. In such a community, agriculture, though still important in itself, ceased to be the main concern of the inhabitants. Their prosperity depended upon the amount of traffic which passed through their streets. The more active the traffic, the more specialized were the occupations of the inhabitants. With their profits they purchased food from the neighbouring villages.

Markets and Fairs.

An intermediate stage of development from village to town was marked by the organization of a market or fair. There was not always sufficient intercourse to support a permanent trading class. Those who had learned a craft had not enough to do to keep them in constant employment. In such circumstances, a periodical market or an annual fair was held, the latter

usually on the occasion of some religious festival, when large numbers of people came together first for worship and then for jollity, and incidentally for special purchases. The fair was authorized usually under warrant of a royal charter, and had a legal existence apart from and independent of that of the community within whose walls it was held. The normal restrictions which prevented strangers from trading in the town had here no force, although there were other regulations which controlled their actions and movements. A large amount of trade was done in the fairs, many of which have survived to our own time. Some have degenerated into assemblies of show-booths and sweet-stalls, but a few have retained their importance for international commerce ; for example, Leipzig, noted for its book fair, and Nijni Novgorod, the most striking survival of the mediaeval fair.

When markets and fairs prospered and multiplied, communities formerly dependent on feudal lord or abbot often passed beyond the village stage and became towns. In order to obtain licence to conduct their own affairs, the inhabitants bargained collectively, and either by annual dues or by a single payment secured a charter of freedom. The funds necessary for these annual payments were sometimes raised by levying tolls on " foreigners " (a term which included merchants from neighbouring towns of their own country) ; to compound for the annual tax, the inhabitants often put together their savings and paid over a large sum. By virtue of their charter they were then able to set up municipal institutions, to choose their own officers and to organize their trade for their own benefit. Thereby they became still more free from outside interference, and were able to fix the amount and determine the use of their own taxes. The privilege of trading in the town without toll was

jealously preserved by the settled inhabitants paying "scot and lot."

Trade Protection.

Mediaeval trade was highly protected. Import and export duties were universally levied, and so many were the frontiers that had to be crossed at a time when Western and Central Europe was divided up into numerous small, yet dependent, territories that the taxes added considerably to the selling price of foreign goods. But the system of protection spread down also to the smallest township. In every village tolls on roads, fords, and bridges were levied for their upkeep. Market dues and gild fees were important items of municipal revenue. Strangers were not permitted to engage in retail trade or to sell to other "foreigners." There were many municipal regulations regarding maximum and even minimum prices and wages. The apprenticeship laws severely restricted entrance to certain trades. In every way freedom was fettered.

Merchant Gilds.

Authority was exercised either by the gilds or by the local magistrates. The former consulted the interests of the citizens as producers grouped according to trades or crafts; the latter were concerned rather with the the whole body of townsfolk as consumers. The town was an economic unit existing for the definite purpose of promoting the interests of home industry. The merchant gilds sprang up in the twelfth century at a time when the revival of town life was proceeding rapidly, and soon they were found in most towns of any importance. Their function was to safeguard the members against the competition of strangers, to ensure fair dealing, and to promote charity. Often the gild

was such an important organization that its members constituted the government of the town, and it is not easy to distinguish between their functions as municipal and gild officials. The aldermen and officers of the gild controlled taxation and other matters, and at a later date often sent burgesses to represent the community in Parliament.

Craft Gilds.

The craft gilds were of somewhat later growth. They, too, were formed to secure the advantages of monopoly. But while the merchant gild sought the monopoly of trading, the members of the craft gild tried to prevent any unauthorized person from exercising his skill as a craftsman in their midst. Originally, the gilds were prepared to admit master craftsmen freely, provided only they had passed through the necessary stages of training as apprentices and journeymen. Their first object was to secure good workmanship and to protect the members against the competition of cheap unskilled labour. Subsequently they became selfishly exclusive ; admission was obtained only by the sons of members, or on payment of prohibitive entrance fees. This narrow policy proved ultimately to be detrimental to the interests of the corporate towns, for it compelled many craftsmen who could not secure admission to the gild, to carry on their trades in hamlets just beyond the "liberties," and so brought into existence competitors who were unhampered by gild control and free from irksome restrictions as to apprenticeship, residence, and so forth. In fact, the existence of gilds came to be a positive hindrance to commercial progress, and at a later time the abolition of gild privileges and restrictions was necessary before industry could reap the benefits of new knowledge.¹ The regulations which

¹ See pages 89, 294, 302.

once had served to ensure good workmanship, in course of time stereotyped methods of manufacture to such an extent that they stood in the way of technical improvements. The separation of certain trades became an absurd anachronism in the age of machinery, and when cobblers complained of the encroachment of shoemakers on their privileges, or watchmakers went to law with clockmakers, there was little hope for industry in general. In England, the break-up of gild monopoly, privilege, and routine took place earlier than in France or Germany, a fact which is important in explaining why the reconstruction of industry in this country on a factory basis went on so much more rapidly than on the continent of Europe.

THE CRUSADES

Among the special influences which stimulated the growth of mediaeval towns, one of the chief was the Crusades. The demand for ready money on the part of the crusading nobles led to the enfranchisement of many communities, which seized this opportunity of purchasing civic freedom by compounding for annual dues. There was considerable movement towards the ports, and this increased activity contributed, as we have seen, to the evolution of the towns. Then there was the question of overseas transport. There arose an unprecedented demand for ships, because the land journey across Central Europe to the East was costly and perilous. The ports which profited most by this demand were Venice, Genoa, Pisa, and Marseilles, at which the largest number of Crusaders embarked.

Venice.

Venice, in particular, had, even in the century before the Crusades, made an excellent beginning with Eastern

trade. The city was founded in the fifth century by refugees fleeing before the onrush of the barbarians under Alaric ; they found safety in the muddy islands of a lagoon at the head of the Adriatic, where they eked out at first a meagre existence as fishermen ; the preparation of salt by evaporation¹ gave additional occupation. Salt was a most important article of mediaeval commerce, since it was necessary for preserving animal food in the winter months.

The products of the fertile valley of the Po found a natural outlet to the Adriatic shores through these islands. The Venetians, therefore, exchanged fish and salt for the corn, wine, and oil of the northern plains, and for the timber and minerals of the mountainous areas beyond. They gradually made themselves indispensable in the traffic between the mainland and the coasts of Istria and Dalmatia. They pushed their trade even farther, to Greece and to Egypt. They served also as carriers for the merchants of Central Europe, especially German and Austrian, using the route now known as the Brenner Pass. Being secure in their island fastnesses from the ebb and flow of invasion, they were able to follow out with single-heartedness the career of commerce for which they seemed to be destined by character and disposition no less than by geographical situation.

The Carrying Trade of Venice.

In Venice, and to a smaller extent in the sister towns of Amalfi (on the Gulf of Salerno), Genoa (at a point on the Gulf of Genoa where a pass in the Northern Apennines links the coast-line with the Po valley), and Pisa (serving the Western coast), the spirit of

¹ The salinity of the Mediterranean is so great that the manufacture of salt from sea-water has been from the earliest times an important industry along its shores.

peaceful commerce, almost annihilated by the war-like barbarians, was revived, and in the age of the Crusades these ports were in the fortunate position of being able to place themselves, their ships, and the whole resources of their commercial organization, at the service of any who would agree to their terms. The Italian merchants accompanied the Crusaders rather as carriers, agents, and "negociators" than as soldiers of the Cross. It is possible that the business relations which the Venetians had established with merchants belonging to the Greek and to the Mohammedan Churches taught them a tolerance which was rare. At any rate, it is clear that they turned the necessities of the Crusaders into a source of profit for themselves. "Throughout the Crusading period, and for centuries after, the maritime republics were more concerned with trading in contraband of war, in iron and timber, with the Saracens and Turks, than in any use of their ships in the service of Christian Europe."¹ They seduced the Crusaders from their main purpose and, by bribes offered to their cupidity, secured their aid in attacking Christian cities which ventured to challenge the commercial monopoly at which Venice was aiming.

For the transportation of large numbers of soldiers and their equipment, and for the organization of the food supply, the services of the Venetian mercantile navy was essential. The ships were supplied on the purely business principle of agreed rates plus commission, the commission taking the form of a half-share in any property or privileges acquired by conquest. In 1202 the Venetians undertook to provide conveyance for 4,500 knights and 20,000 foot soldiers, with provisions for nine months. The price agreed upon was 84,000 silver marks and commission as stated above.

¹ Jeudwine: *Studies in Empire and Trade*, page 58.

The sum subscribed by the Crusaders being 32,000 marks short, the Venetians agreed to waive this portion of the payment, provided the Crusaders first helped them in the siege of Zara, a neighbouring city which had recently thrown off allegiance. They next urged the conquest of Constantinople, their great rival in the East, and the siege being quickly successful (1204), Venice came into possession of a share of the vast Oriental trade of which Constantinople was the centre. Thus the Venetian Empire of the East came into existence.

The Commercial Empire of Venice.

As fast as the arms of the Crusades prevailed, the Venetians stiffened their terms of service, until their share became three-fourths of all conquests. The Doge of Venice assumed the title of "Lord of Three-eighths of the Roman Empire." In every conquered town of the Levant a Venetian quarter was marked off, where the Western merchants settled and built warehouses and palaces. From these centres they controlled the great caravan routes to the interior of Asia and to India *via* the Persian Gulf. They ousted the Genoese from the rich trade of the Crimea and the Black Sea, and secured a monopoly of Russian commerce, their depot being Tana, at the mouth of the Don. Soon there were Venetian ambassadors at all the great courts of Europe. The commercial supremacy of Venice was so firmly established that her ambassadors could dictate to monarchs, and demand for their merchants and their merchandise free entrance into markets where rivals had to pay heavy duties.

From the twelfth to the fifteenth century the Venetians were the great carriers of Europe, and the wealth which the city derived from the services rendered by her ships to every country having foreign

commercial connections, is indicated by the splendour of the palaces erected by her merchant princes along the banks of the Grand Canal, and by the rich beauty of the churches and monuments which adorn the city. The Venetian magnates were generous patrons of art, and the countless masterpieces of architecture and painting, which they commissioned their great artists to create, are an expression of the same commercial pride as that which inspired the annual ceremony of Venice symbolically espousing the Adriatic.¹

Venetian State Fleet.

The expansion of Venetian commercial relations may be most clearly set forth by noticing how the mercantile service was organized. For mutual protection against pirates, and convenience of governmental control, fleets of galleys were equipped annually under the command of a captain appointed by the State. The freightage was put up to public auction; that is to say, private merchants made bids for the privilege of taking up so much cargo space in the galleys. No others were permitted to send goods to the ports of call. The fleet sailed on dates officially determined, and the course was strictly regulated in advance. The journey out and home occupied nearly a year. The Black Sea fleet served the Aegean islands, Constantinople, Tana, and the Crimean ports, bringing back grain, wines, honey, mohair, and fine cloths. The Egyptian fleet plied between Venice and Alexandria or Cairo, linking up with the overland routes to the South and across the Isthmus of Suez. Hence they derived the silks, spices, ivory, and cotton of India and Arabia. The Armenian fleet sailed regularly to

¹ Each year, on Ascension Day, the Doge proceeded in the State Galley, called the Bucintoro, out to the Adriatic, where he cast a gold ring into the waters in token of marriage.

Aros in the Gulf of Alexandretta. Westward, the Flanders fleet touched at the ports of Naples, Spain, Portugal, France, England, and Flanders, the goal being Bruges, the headquarters of the Hanseatic League. A section of the fleet served the coast of Northern Africa, touching at the ports of Tripoli, Tunis, Algeria, and Morocco. Each of these ports was the terminus of caravan routes across the Sahara, along which the Moorish merchants brought slaves, ivory, gold dust, dates, and grain to exchange for the manufactured silk, linen, woollen, and cotton fabrics, glass-work, leather-work, armour and firearms wrought by the skilful Venetian artisans, using the raw materials they obtained by importation.

Trade Policy.

The trade policy of the Venetians was protective, in accordance with the practice of the time. There were prohibitive duties on all manufactured imports which competed with the products of home industries. But to ensure supplies of certain necessary raw materials, for example, metals, the Senate offered bounties on imports. Salt was a government monopoly. Navigation laws were enforced similar to those which in England dated from the reign of Richard II. These laws imposed supplementary duties on goods brought to Venice in foreign ships, and in some instances forbade entirely importation in any ships other than Venetian. Everything possible was done to compel foreign merchants to resort to the city itself for their dealings with native merchants. Strangers had to offer their goods publicly on the Rialto before they might be offered privately to the merchants of any other country. Since the Venetians had a practical monopoly of Oriental products, German, Hungarian, and Bohemian traders had no option but to submit to any

restrictive regulations which the Senate might decree. Thus the lagoon-dwellers became not only the carriers and the manufacturers, but also the bankers of Europe.

The Lombard Bankers.

The Venetian State Bank was established in 1157. Known as the Lombards, the bankers spread their financial operations over the whole of maritime Europe, and established branches in every commercial centre. Their memory is perpetuated in the name of one of the principal financial thoroughfares of London, viz., Lombard Street. In these banks the operations of modern banking were highly developed, and the use of credit instruments was well understood. Bills of exchange were in general use. Reserves of specie were kept to safeguard credit in times of crisis. The business of finance became highly specialized, and there were deposit bankers, loan bankers, discount bankers, money changers, and brokers.

Genoa.

Venice aimed at monopoly but was unable to smother altogether the competition of other Italian cities, especially Genoa, Pisa, and Florence, and of a French city, Marseilles. In 1261 Genoa entered into a treaty with the Greek Emperor for the overthrow of the Latin Kingdom and the restoration of the Eastern Empire. In return for their aid, the Genoese were allowed to establish themselves at Galata and Pera. From these centres they extended their influence for nearly a hundred years in acute rivalry with Venice, and gained a considerable share in Syrian commerce. Then the Genoese arrogantly turned upon the Empire itself, demanding the cession of further territory. The Emperor thereupon summoned the Venetians to his aid, and a long struggle followed with fluctuating

fortunes. Finally, Genoa had to acknowledge the maritime supremacy of Venice and fell behind in the race for wealth and empire.

The Genoese lacked the single-mindedness of the Venetians. Their city was well situated to serve as the natural outlet for the western half of the plain of Lombardy and the regions beyond the Alpine passes of Gotthard, Simplon, and Mont Cenis. But she was unable to maintain her political isolation as successfully as Venice. Genoa became embroiled in the quarrels of France, Piedmont, Milan, and other States, and wasted her wealth and her energies in useless warfare on behalf of causes which brought her neither profit nor honour.

Influence of the Crusades.

Over and above the stimulus given by the Crusades to the growth of Mediterranean ports, and to the great development of overseas transport, there were other important economic results which followed the establishment of regular traffic with the East. Contact with Arabian civilization accustomed the Western people to a higher standard of living. The Crusaders started out expecting to meet uncultivated tribes of fire-eating infidels, and were surprised to find the Saracens living cultured lives in elegant cities, surrounded by refinement and enjoying comforts quite unknown to themselves. The Western peoples were familiarized with Oriental products, and many luxuries of an earlier age passed into the category of necessities. Hence the sumptuary laws which were frequent in the Middle Ages. New foods, including spices and condiments, passed into common use. Silks, fine linen, and carpets added to the elegance and comfort of life. Window-glass and chimneys were introduced into domestic architecture. At the same time, the opening

of new Eastern markets to the products of the West gave to manufacturing industry an important stimulus. The Crusaders found that the infidels placed a high value on scholarship, and acquired from them much useful knowledge of geography and astronomy, science and mathematics, philosophy and logic, language and literature, as well as the secrets of many important industrial processes.

The ferment of the Crusades produced many other changes in the economic life of Europe. Reference has already been made to the rise of towns. As the merchant middle-class increased in influence, the feudal nobility declined. New methods of warfare, and the rise of the professional soldier, undermined the foundations of feudal power. Heavy expenditure on crusading equipment impoverished the nobility. The absence of "over-mighty" subjects for protracted periods gave to the monarchs an opportunity for consolidating and centralizing their authority. Many of the crusading nobles did not return at all, and their estates reverted to the Crown. Consequently, all over Western Europe the period of the Crusades marks the beginning of the rise of strong monarchies, and the emergence of national policies for commerce.

International Currencies.

Finally, the Crusaders did much to accelerate the spread of a "money economy" in Europe. There was an unprecedented demand for coined money, which the Crusading armies required to meet expenditure on equipment, supplies, wages, and transport. There grew up also a demand for a convenient medium of exchange, and a stable standard of value in transactions between the merchants of West and East. In the chaos which followed the break-up of the Carolingian Empire, currency had either disappeared altogether

from feudal Europe or was so debased as to be almost worthless. But the great commercial cities of the Mediterranean, especially Constantinople and Venice, issued coinages which, because of their constant fineness, became current wherever the trade of these cities penetrated, and spread even into remoter parts.

The gold *bezant* of the Emperor Constantine passed current everywhere from the ninth to the fourteenth century. But gold was found to be inconvenient, and the principal coin of international currency was the silver *bezant*, which varied in value from one to two shillings. The *denarius*, or silver penny, was the coin in most general use. There were many other issues by Venice (ducats) and by Florence (florins), which obtained a considerable currency until the sixteenth century, when national currencies were put on a sounder basis.

Florentine Bankers.

In the development of international finance, the Florentine bankers became especially famous, rivalling the Lombards. Florence was, during the fourteenth and fifteenth centuries, the money centre of Europe, and her most famous patrons of art were bankers ; for example, the Bardi, the Peruzzi, and the Medici. These were the first buyers and sellers of bullion and credit. Their operations were both local and international. They were as necessary to the Florentine artisan desiring an advance to purchase raw silk and wool, as to the King wishing to raise a large loan for the purposes of a foreign campaign.

CHAPTER VI

THE LATER MIDDLE AGES : NORTHERN EUROPE

WHILE the argosies of Venice were riding proud and secure in their supremacy of the Mediterranean, there were growing up in parts of Germany and around the shores of the North Sea and Baltic Sea confederations of cities which ultimately secured for themselves an equally complete control of the commerce of their respective areas. Such confederacies arose out of the social disorder of the period which succeeded the break-up of the Carolingian Empire. The highways were infested with "robber-knights," who issued forth from rude strongholds, set on commanding heights of land, and levied toll or held to ransom any defenceless cavalcades of merchants or pedlars carrying wares to some distant market or fair. The seas were equally unsafe. Piracy was looked upon by the younger scions of the noble houses of Denmark and Norway as an honourable calling, promising adventure and fortune, and possibly even leading to dominion and power, as it did for Rolf the Ganger, the Norwegian pirate leader and ancestor of William the Conqueror.

The Need for Association.

Inland townsmen could usually protect themselves against freebooters by surrounding their cities with thick walls and by closing and guarding their gates at night. Coastal dwellers were wont to build their houses some distance up a river or creek, where they would be less open to observation and attack by pirates. But when merchants ventured beyond their walls or out on the open sea, they were deprived of such protection. They therefore entered into leagues for mutual defence.

The Rhine League, the most important members of

which were the towns of Cologne, Coblenz, Maintz, Frankfurt, Worms, Strassburg, and Basel, kept open the passage of the river, which was the most important channel of the wine trade between North and South Germany and the southern port of Genoa. These towns also entered into treaty obligations towards each other, whereby many tolls were abolished. The League was controlled by a representative diet. The Swabian League was a similar confederation of towns lying on or near the Danube route, the principal being Augsburg, Nürnberg, Regensburg (Ratisbon), and Constance. These acted as intermediaries between the traders of the Mediterranean and those of the Northern Seas, linking up Venice with the interior of Germany and Austria. They also took combined measures to protect merchants in passage, suppressing the lawless feudal highwaymen, improving communications, and establishing something approximating to free trade and equal privileges within the limits of the League.

All towns thus associated developed considerable industries : Nürnberg, for example, was famous for hardware, jewellery, toys, and wood carvings. Each became an important banking centre. The Fuggars and Welsers of Augsburg gained international repute as financiers, rivalling even the Medici of Florence. Their capital was used to develop "silver mining in the Tyrol, copper in Hungary, quicksilver in Spain, colonization in Venezuela, estate management in Spain."¹ As merchant bankers, their assistance was indispensable to the Holy Roman Emperor.

THE HANSEATIC LEAGUE

The Hanseatic League of the North arose out of similar conditions. It began with the association of

¹ Cunningham : *Western Civilization (Modern Times)*, page 175 (note).

the merchants of Hamburg and Lübeck during the second half of the twelfth century, for mutual defence against piracy and for reciprocal rights of trading. During the thirteenth century other groups of towns applied for admission into the "Hansa" or commercial association: the Wendish towns of Wismar, Rostock, and Strahlsund; the Westphalian towns of Dortmund and Cologne; the Saxon towns of Brunswick and Magdeburg; towns of Prussia and the east coastlands of the Baltic, from Dantzic to Riga. This disposition among the Northern towns to enter into association for mutual purposes is in marked contrast with the jealous exclusiveness which made the Italian cities keen competitors of one another. The "Queen of the Hansa" was Lübeck; here the diet of the League was held, and the archives and treasury kept.

Hanseatic Factories.

In addition to the towns thus centrally associated, there were others more distant called "factories,"¹ where Hanseatic agents were permitted by treaty arrangements to settle and engage in trade. The most important of these were Bruges, London, Bergen, and Novgorod. In Bruges the merchants of the Hansa met those of Venice, who were reluctant to venture any farther into Northern waters. The town, situated on a canal leading to the North Sea, was the terminus of the voyage of the Flanders fleet. The Venetians picked up at the ports of call in Sicily, Italy, Spain and Portugal cargoes which they exchanged at Bruges for the products of the Northern latitudes. These they distributed at the ports of call

¹ The word signifies a trading-post, where "factors" carried on their business of buying and selling. It has here nothing of its present meaning of a place where articles are manufactured. The East India Company, at a later date, called their stations in India "factories."

on the return voyage. Bruges had extensive connections also with the interior of the Continent, for three great river routes—the Rhine, the Meuse, and the Scheldt—converged upon the estuary near which the town was situated.

Economic Products of Northern Europe.

Northern Europe, in so far as it formed part of the sphere of operations of the Hansa merchants, may be divided into four principal economic regions: the forest belt covering the slopes of the Scandinavian peninsula and the plains of Northern Russia; the narrow coastal areas of Norway and Sweden, Finland, and Poland; the flat Low Countries and the opposing plains of East Anglia; and the interior mountainous belt of Upper Germany. The native products of these areas formed the basis of local trade. From the forest belt to the North came timber, chiefly pine and birch; resin, tar, and pitch; and furs. The coastal strips produced metallic ores, especially iron and copper. The fishing industry was even more important. The herrings from the southern half of the North Sea found a ready sale in all Catholic countries. The Netherlands and East Anglia furnished flax, hides, wool, grain and fruit, and china clay. From the interior came wine and hops, minerals, potash, honey, hemp, wax, tallow, and a greater variety of timber.

The most characteristic industries were the fine textile and hardware manufactures of Flanders, fish-salting in Norway and Sweden, and tin-smelting in England. Coarse textiles were manufactured almost universally in the cottages of peasants, and every town had its own brewery.

The chief articles imported from Southern Europe through the agency of the Venetians were the wines, fruits and oils, the sugar, honey, and wax of Spain and

Portugal ; the glass-work, silk, and armour of Venice ; the products of Northern Africa—gold dust, ivory, dates, wool, and grain. In addition, the northerners owed to the Venetians their introduction to all the luxuries that the East could provide : spices and perfumes, dyestuffs, pearls, rich fabrics, carpets delicately hand-wrought, gold and silver, trinkets and ornaments.

Commercial Importance of Flanders.

Flanders was, during the thirteenth century, rapidly developing her commerce. Her townsmen were among the earliest to win enfranchisement from feudal tenure, and they shared in the prosperity which came to maritime towns in the crusading era, and in the social peace which ensued upon the departure of the crusading nobles. The Flemish fairs were especially well patronized, and the numerous merchant and craft guilds did all they could to popularize them. At Bruges, Ghent, Antwerp, Ypres, and Lille the guilds of weavers, dyers, and cloth merchants regulated these fairs, arranging for transport along the canals and rivers, fixing maximum prices for the protection of strangers, organizing money exchanges, and keeping a sharp watch for sellers of adulterated or shoddy goods. The Flemish towns emulated the Italian city-republics. They became the carriers for Northern Europe and developed important manufactures of their own, particularly weaving. By means of a liberal commercial policy, the Flemings encouraged foreign traders to settle down among them, offering them privileges and protection. In Bruges sixteen "foreign" cities had depots. It was a staple town for English wool. Though the Hanseatic merchants established a factory there, they did not succeed in controlling Flemish trade as completely as that of other regions, because

they found in Flanders a people endowed with a spirit of sturdy independence and civic pride equal to their own. Bruges, until its supremacy was challenged by Antwerp in the fifteenth century, remained for two hundred years the largest emporium of the North, her markets the most cosmopolitan, her manufactures the most important, and her merchants the most enterprising. For them Philip the Good established the Order of the Golden Fleece, the symbol of commerce.

The Hansards in London.

Opposite the estuary of the Scheldt lay the estuary of the Thames, and here in the "Steelyard" of London the Hansa merchants established another factory. Colonies of merchants from Cologne were already settled there, enjoying the protection first granted them by Richard I. The combined colony of "Easterlings"¹ and "Hansards" occupied a quarter in the heart of the city, where they built warehouses and dwellings and were practically independent of the government of the rest of the city. They were subject to their own law, administered in a special court by their own officials,² and were protected by the kings against the encroachment of rivals. From this point of vantage they gradually secured a strangle-hold on English commerce and extended their operations to Norwich, Lynn, York, Bristol, and other towns. The *quid pro quo* for the grant of special privileges to the Hansa merchants, was the concession to Englishmen of trading rights in the Baltic. But at this period English trade was not sufficiently developed to take much advantage of the bargain, and frequent complaints were made regarding the "barbarous usances

¹ The origin of "sterling."

² To ensure single-hearted attention to the business of the League, as well as for quasi-religious reasons, these officials were sworn to celibacy.

and unfriendly behaviours " of the Dantzigers towards " the merchants, owners, masters, and mariners of England being at Dantzig." ¹

The Hansards in Norway and Russia.

The most northerly point of Hanseatic influence was Bergen, in Norway. Here, among a rude people unused to commerce, the German merchants easily established a monopoly of trade. The port was well situated for controlling the North Sea and keeping it free from marauders, and it was an important centre for the herring industry. The fourth of the great Hanseatic factories was Novgorod in Russia, from which centre the League entered into relations with North-east Europe. Novgorod possessed one of the most famous fairs in Europe, which, even as early as the twelfth century, the merchants of Wisby in Gothland, an island of the Baltic, used to frequent. As at Bergen, the Hanseatic merchants found no difficulty in securing a dominating hold upon the trade of Novgorod which continued until St. Petersburg, built in a situation more favourable for Baltic maritime trade, robbed the inland market of much of its importance.

The Decline of the Hansa.

The conditions which gave rise to the Hanseatic confederation were in their nature transitory. As firm government became re-established in the countries which arose out of the ruins of the Carolingian Empire, and the authority of law penetrated, slowly but surely, into the remotest corners, there was less to fear from the pirate and the freebooter, and the necessity for concerted action against violence became less urgent. Moreover, with the gradual fusing of tribes and people

¹ Deardorff: *English Trade in the Baltic during the Reign of Elizabeth* in *Studies in the History of English Commerce in the Tudor Period* (University of Pennsylvania), page 240.

into self-conscious nations possessing an independent political existence, there arose a conflict between national and international interests. The former grew stronger as the latter weakened. "In the fourteenth century the English forced their way into the Baltic, and deprived the League of its exclusive trade in cloth. The attack from the West was almost simultaneous with strenuous measures which were temporarily taken against the merchants of the Hansa League in Russia ; and eventually they fell before the rising spirit of English and Russian nationality."¹ Dissensions arose which brought some cities into a state of mutiny, and the diet of the League found that it no longer possessed power to coerce recalcitrant members. Monopoly gave place to competition. One after another of the confederate cities seceded and issued declarations of independence, until finally Lübeck, Hamburg, and Bremen alone remained.

Besides the political, there were economic causes at work. The staple article of Hanseatic trade was fish, in particular the herring, which after a process of curing and salting, was exported into all the countries of Catholic Europe. The chief feeding ground of the herring was originally in the Baltic, but in the year 1425, for one reason or another, the fish migrated to the North Sea. The leading part in the herring industry was thenceforward taken by the Dutch,² who carried on this profitable trade off the shores of England and Denmark. But the final and decisive factor in the decline of the Hansa was the discovery of America and the Cape Route near the end of the fifteenth century. Thereupon there followed a general change of outlook in trade. Commerce swung right round to

¹ Cunningham : *Western Civilization (Modern Times)*, page 114.

² A Dutchman, Beuchels, had shortly before this discovered an improved method of preserving fish by curing instead of salting.

the South and West. The countries and ports which looked out over the Atlantic and had hitherto felt only the backwash of trade, now intercepted the traffic which came from the New World and from the Old World also along the new route. The lifeblood of commerce no longer flowed so freely into the Baltic and the Mediterranean, and the Hansa trade fell into an anaemic decline similar to that of Venice and Genoa. In the South, Lisbon and Bordeaux; in the North, London and Antwerp became the main depots of commerce, and the contests of the next two or three centuries—waged with varying fortunes—involved Spain, France, Holland, and England.

LAW MERCHANT IN THE MIDDLE AGES

The basis of commercial codes of law is to be found probably in the maritime law of Rhodes, dating from about the third century B.C. Herein the actual principles upon which commercial intercourse in the ancient world was conducted were reduced to a system.

Maritime Law of Rhodes.

“The Rhodians were the first to establish rules, subsequently accepted universally, with regard to co-partnership, and the remuneration of the commanders, officers and seamen, by shares in the profits of the ship, much in the same manner as is still done among whaling vessels. Again, they framed laws to be observed by freighters and by passengers while on board ship; they affixed penalties on the commander or seamen for injuries done to goods on board of their vessels, from want of sufficient tarpaulins or proper attention to the pumps, and for carelessness or absence

from their duties. They also imposed penalties for barratry, for robbery of other ships, or for careless collisions, awarding a special and severe punishment to anyone who ran away with a ship which had been placed under his charge. Punishments were likewise enforced for plundering wrecks, and a compensation allotted to the heirs of seamen who lost their lives in the service of the ship. The Rhodians were also the first to make regulations affecting charter parties and bills of lading, as well as contracts of partnership or joint adventures. They laid down rules for bottomry, for average and salvage, specifying a scale of rates for recovering goods from the bottom, in one and a half, twelve, and twenty-two feet and a half of water ; and also for the payment of demurrage."¹

The Rhodian system was adopted in its entirety by the Romans, and was thus handed down to the Middle Ages. In contrast to national systems of law, this was of international validity, and was administered in special courts. While mediaeval fairs were in progress, courts of "pie-powder" (*piec poudré* or "dusty foot") were set up to determine suits between merchants of any nation, according to the general principles of the *lex mercatoria*. Should a dispute arise between native and stranger, the officials of the court were chosen in equal numbers from the townsmen and the "foreigners."

The Rôles d'Oleron.

As commerce developed, it became necessary to extend the code and to bring it into closer relation with the needs of each succeeding age. One of the most famous of these revisions is called the "*Rôles d'Oleron*," which some authorities believe to have been drafted by Richard Coeur de Lion on his return from the Third

¹ Lindsay : *History of Merchant Shipping*, pages 183-4.

Crusade. The articles deal in order with the legal relation between the owner of a ship and the commander ; the constitution of the crew and the rights of the various members (for example, their share in salvage) ; punishment for desertion ; the law of hiring and discharge ; discipline on board ; responsibility for defective stowage ; injuries sustained by the ship at moorings ; partnership in freight ; food allowances ; wages ; demurrage ; pilotage ; flotsam and jetsam ; wrecks ; and countless other matters which enter into the life of every ship.¹ The Rules of Oléron furnished the basis of the regulations of the merchants of Wisby in Gothland, and mercantile law as practised among them was handed down to their successors in Germany, Denmark, Norway, Sweden, and England.

The *Customs of Amsterdam* and the *Laws of Antwerp* were later codes. The regulations which governed the widespread consular system of Venice supplemented these rules of maritime commerce with others concerning the relations of nationals and aliens. In this way certain leading principles of almost universal acceptance in the mediaeval world passed into modern international law.

MEDIAEVAL CURRENCIES

In general it may be said that the main obstacle to the development of mediaeval commerce was the scarcity of currency. The Romans, by paying for the luxuries of the East with specie, had drained Europe of precious metals, and the mediaeval Church by converting gold and silver into massive Church ornaments and plate, still further reduced the quantity available for coinage. As long as this scarcity continued, the transition from a natural to a money

¹ Lindsay : *History of Merchant Shipping*, II, page 392.

economy was delayed. The spread of a national currency was hindered by other causes, since, although the coins issued from the royal mints were everywhere legal tender, it was not easy to displace the local coinages which feudal barons were licensed to issue.

Debasement of Coinage.

The temptation to debase coin was too easy to be resisted, particularly in the private mints. Even governments, ignorant of the science of currency, were prone to meet temporary emergencies by tampering with the coinage and snatching an immediate profit at the expense of untold loss for their successors. In consequence, we find that coined money was uncertain in value. On any large payment being made, the services of the assayer were called into requisition. It was his duty to ascertain the standard of goodness of sample coins, and, on the evidence of this partial assay, to calculate the approximate value of the whole. Such a proceeding was slow and troublesome, involving both parties to the transaction in uncertainty, and hindering the rapid dispatch of business. Frequent alterations in the fineness of coins produced fluctuations in general prices. In consequence, it was difficult to contract for future delivery of goods, and the possibilities of trade expansion were effectually limited. It is clear, therefore, that whenever a government was strong enough and prudent enough to maintain its currency at a high level and to deal firmly with counterfeiters, its reward was sure.

Accumulation of Bullion.

The commercial importance of an adequate supply of circulating medium was recognized in the later Middle Ages. Political power was thought to depend on the stock of money available in the country, this

being the most convenient and mobile form of wealth. The export of bullion was therefore prohibited, while its importation was encouraged. Foreign goods, which could not be produced at home, might be paid for by home products, but whenever possible home products were to be exchanged for specie. Aliens who brought goods into England, for example, and sold them there were compelled to spend the proceeds on English goods, and to carry these out in exchange for what they had brought. Payments in specie to the Pope were looked on with great disfavour.

Each country endeavoured in such ways to accumulate and to safeguard a stock of the precious metals.¹ In consequence of this policy a backward flow of bullion from the East set in, and the production of silver (for example, in Spain) was stimulated. The countries which succeeded in obtaining adequate supplies by one means or another made more rapid progress in commerce than those in which the scarcity of currency persisted. In the former, the transition from a natural to a money economy proceeded more rapidly ; there, new forms of economic organization based on credit came into being ; the bonds of custom were broken, and enterprise moved more freely not only towards the satisfaction of old wants, but also towards the anticipation of new ones.

The Staples.

The organization of staples was in accordance with the protective character of mediaeval commerce. The staples were permanent markets where alone certain wares could be bought or sold. They were established frequently at the ports in order that the King's customs

¹ Doubtless the vogue of alchemy and the search for the formula which would transmute the baser metals into the nobler, has a bearing on this.

might be levied without the possibility of evasion, and also to render it easier to control trade for political ends. Staples might be established either at home, or, by treaty arrangement, on foreign soil. At one time Bruges was the principal staple town for English wool ; subsequently there were staples at Newcastle, London, Norwich, Bristol, Calais, and other towns. Trade being thus compelled to move along specified routes from one defined spot to another, it was easier to give merchants protection against piracy. Furthermore, it was of advantage to merchants to do business where large numbers of other dealers congregated. The more trade was concentrated at certain points, the more effectively were the officials of the guilds able to carry out their duties of supervision. There were officers of the staple whose duty it was to see that every exchange resulted in a net gain of specie to the owner. Often, too, a king who controlled a staple found he had a trump card to play in the game of diplomacy. The threat of the removal of a staple to a rival territory, or the withdrawal of protection from foreign staples on his own territory, was a powerful weapon with which to coerce a rival.

ENGLAND IN THE MIDDLE AGES

All the foreign, and most of the domestic, trade of England down to the fourteenth century was in the hands of alien merchants, who lived under the King's guarantee of safe conduct. The country had not yet passed out of the condition of " passive " commerce ; that is to say, she looked to others to supply the enterprise and stimulus for trade and industry, and was content to import manufactured products in exchange for her raw materials. The English had up to this time given no indication that they possessed a genius for commerce, and were destined to become the

greatest commercial nation in the world. Only a very small proportion of the people lived in towns, the most important of these being situated on the south coast facing Normandy. The coming of the Normans gave an important fillip to English industry, and the firm government of some of the early kings created the social security which was essential for trade. But England lay west of the main stream of commerce, and her foreign relations were for a long time mainly with her immediate neighbours, France and Flanders. Little of the benefit which the far-flung commerce of Venice brought to Europe reached England, until the Venetian State fleets began in 1317 to make Southampton a place of call on the voyage to Bruges. Popular hatred of the Jews had compelled Edward I to expel them from England, and the Venetians (or Lombards) now took their place as the financiers of the kings, acting as agents for foreign remittances (for example, payments to the Pope) and for raising loans on the security of taxes.

Growth of a National System.

In general, the desire of Edward I and his two successors was to create a national system of commerce by breaking down the exclusiveness of the towns which were dominated by the guilds. The assistance of alien merchants in touch with the commerce of the Mediterranean and Baltic Seas seemed essential for this purpose. But the popular hatred which had forced Edward to expel the Jews was turned equally against the Lombards and the Hansards. Down to the end of the reign of Edward III the alien merchants, enjoying royal protection, held their own. Edward I wanted cheapness and plenty, and thought that this could best be secured by encouraging merchants of any nation to pass into and out of his Kingdom without let or

hindrance. Industrial development in England was so slow, enterprise so lacking, and the regulation of the guilds so conservative, that without foreign aid no king could carry on financial operations on the large scale that was necessary to enable England to assert herself among the nations. But the freedom which the alien merchant enjoyed from the time of Edward I to that of Edward III, and "which would seem to the eyes of a modern free-trader to be abnormally enlightened for the fourteenth century, was premature."¹ Native merchants raised the cry that foreigners were taking the bread out of their mouths and complained that their competition was unfair, inasmuch as English merchants enjoyed no such privileges of free entry into foreign markets.

In the economic disturbance which followed the Black Death, the contentions of the native merchants were reinforced by the argument of social unrest, and they ultimately forced a reversion of policy. Foreigners were no longer permitted (except in some special quarters, such as the Hansa Steelyard) to engage in retail trade; they were compelled to pay taxes and duties, to report themselves on arrival at any town to the authorities, to enter into bonds that they would spend in the purchase of English goods, within three months, all that they had received for the goods which they imported. At about the same time (1381) the first English Navigation Act was passed: no goods were to be taken in or out of the country except in English ships.

Expulsion of the Hansards.

The Hansards did not yield up their valuable privileges without a struggle. In recognition of the support they gave to Edward IV, their privileges in

¹ Warner : *Landmarks in English Industrial History*, page 119.

London, Boston, and Lynn were not only confirmed, but increased. Yet nothing could stand in the way of the growth of native trade. "Slowly but surely the foreign commerce of the country, hitherto conducted by the Italian, the Hanse merchant, or the trader of Catalonia or Southern Gaul, was passing into English hands. English merchants were settled at Florence and at Venice. English merchant ships appeared in the Baltic."¹

The principal items in Baltic trade were ships' stores : hemp, flax, cables, cordage, masts, sails, pitch, and tar. These were of vital importance for England in her maritime struggle with Spain,² and since the latter also was in the market for these goods, prudence demanded that our dependence on Hanseatic shippers should be brought to an end. On the petition of London merchants the privileges of the Hansards were gradually curtailed by the Tudors, and towards the end of the reign of Queen Elizabeth, they were given fourteen days' notice to quit the country. The foreign trade of London then passed into the hands of the Merchant Adventurers, and the "Steelyard," once so active a hive of industry, was in a few years deserted. Notwithstanding the fact that the occupation of the Hanseatic merchants lasted about four hundred years, few traces of it now remain.³

Development of English Commerce.

Thus England passed from the condition of passive to that of active commerce. Her merchants, no longer satisfied with waiting for the arrival of the Venetian

¹ Green's *A Short History of the English People* (Macmillan), page 289.

² Drake once seized sixty Hansa ships laden with grain in the mouth of the Tagus.

³ The original buildings were destroyed in the Great Fire of 1666. The site is now occupied by Cannon Street Station.

or Hanseatic fleets, became more enterprising. In Edward I's reign, the Merchants of the Staple (an association of foreign merchants in England) began to export wool. Under Richard II, the Merchant Adventurers (all native Englishmen) extended the trade, now considerably increased in volume on account of the stimulus given to woollen industry by the foreign weavers introduced by Edward III. Instead of exporting only raw wool, like the Merchant Staplers, they exported also manufactured cloth, and instead of trading only at the fixed "staple" towns, where the Staplers kept their magazine of wool, the Adventurers were at liberty to pursue their trading enterprises wherever profit was to be got. By the end of the fourteenth century, the Merchant Adventurers were forcing a way into the markets of Spain and Portugal, Flanders and Holland; their ships called regularly at the ports of the Baltic and the Western Mediterranean. The Grocers' Company dates its origin from 1383, and the Mercers' Company from 1393. The Hansa in the North, and Venice in the South, found themselves compelled to share their several monopolies with a new commercial rival.

Manufactures and Shipping.

Until the fifteenth century England had been mainly a producer of raw materials; a change was now taking place, and she began her career as a manufacturer. Hitherto, English wool, tin, lead, and iron had been exported, and all that was needed for luxury and display was imported from the great manufacturing centres of the Hanseatic League, Venice, or the East. In the later Middle Ages, home manufactures, usually profiting by royal encouragement, developed considerably. As we have seen, the woollen industry owes much to Edward III, who had to fight hard against

the exclusiveness of the gilds. Shipbuilding became important under Richard II and Henry V. Until about 1400 English traders had always employed foreigners, chiefly Flemings and Venetians, to carry their wares. During the fifteenth century, under the operation of the Navigation Acts, an increasing proportion of England's foreign trade was carried in her own ships, and the Cinque ports and Southampton enjoyed very great prosperity.¹

Importance of the Political Factor.

The commercial progress of England in the late Middle Ages owes much to her political condition. National unity was achieved very early, and her insular situation made possible an early development of free political institutions. The comparative immunity of her territory from violation by foreign war and invasion enabled these institutions to uphold the standard of popular liberty. Political freedom has thus become the outstanding characteristic of the Anglo-Saxon race wherever dispersed over the face of the globe. But peace and liberty are the very air which commerce breathes. Despotism and oppression, political disunion, "famine, sword, and fire" are noxious poisons, choking up the channels of circulation in the body of commerce, and producing a paralysis in every limb. The Inquisition in Spain suppressed every impulse towards creative expression in commerce and industry no less effectually than in art and literature. The Thirty Years War devastated Central Europe and delayed her commercial development a full century. The

¹ It has been often pointed out that the popular conception that Englishmen are and always were "born navigators" is quite erroneous. Their interest in maritime adventure began in fact only four or five hundred years ago, centuries after many of the nations whom they afterwards outrivalled had shown themselves possessed of a genius for seafaring, colonization, and commerce.

long struggle of Germany and Italy towards political unity, ending only fifty or sixty years ago, exhausted the energies of the governments, and checked the enterprise of the people. England has been fortunate in the absence of such checks to her political and commercial development. The path of her economic evolution has no sudden breaks or violent turns.

CHAPTER VII

COMMERCIAL EMPIRES OF THE SIXTEENTH AND SEVENTEENTH CENTURIES

EVENTS occurred towards the end of the fifteenth century the total effect of which was to revolutionize the life and thought of Western Europe. Gunpowder shattered feudalism and rendered obsolete all the concomitants of feudal society : the walled castle, the liveried retainer, armour, the tournament, the troubadour, and so forth. The invention of the compass was the prelude to the charting of the oceans and the discovery of the New World. As the physical horizon receded, the limits of the mediaeval spirit were also expanding. The vigorous intellectual ferment of the fifteenth century, which we call the Renaissance, burst the vessel in which tradition and ecclesiastical authority had tried to confine thought and enterprise during the "Dark Ages." The third great mechanical invention, the printing press, scattered the forces of ignorance and threw open the doors to progress. The cause of geographical exploration was advanced by the wider dissemination of knowledge, and the discoveries of the spirit, made known to an ever-increasing circle, produced a quicker judgment, a more independent type of thought, and gave men an appetite for adventure in the physical as well as in the intellectual sphere.

Rise of the "Third Estate."

The decline of the authority of the Church on the one hand, which was a feature of the Renaissance and Reformation periods, and the weakening of feudal authority on the other, gave to the middle classes (the "third estate") a new importance. Their strength lay in the towns ; their interests were industrial and

commercial, as contrasted with the military and agricultural interests of earlier predominant social classes. From the sixteenth century onward the commons form the vanguard in the struggle for political liberty; ambitious, adventurous, imaginative, they encircle the globe with their enterprises, and lift the people out of poverty into material comfort and out of ignorance into curiosity.

The sovereigns of the sixteenth century found in the trading classes, thus rising into importance, a valuable ally in their contest for power with the Church and the feudal nobility. Each of these was in a sense anti-national. The Church held fast to an ideal of universal brotherhood for Christendom under the Holy Father, and looked with disfavour upon any manifestations of the national spirit which seemed to work counter to this ideal. The feudal chieftain tended to regard his fief as the unit of society and government, and resisted the efforts of royal authority to erect a larger political structure, the Kingdom, on a basis of national sentiment. But the interest of the traders coincided with that of the kings. They wanted a national policy for commerce. "The politicians of the sixteenth, seventeenth, and greater part of the eighteenth centuries were agreed in trying to regulate all commerce and industry so that the power of England relatively to other nations might be promoted, and in carrying out this aim they had no scruple in trampling on private interests of every kind."¹

National Commercial Policies.

Trade, therefore, ceased to be regulated in the interests of guilds or cities, and commercial policy became national in scope. The advancement of commerce became one of the main objects of diplomacy.

¹ Cunningham: *Growth of English Industry and Commerce*, pages 435-6.

Beginning with the Navigation Acts of Richard II, we have a long series of parliamentary enactments and international treaties, the purpose of which was to promote the material prosperity of England at the expense of rivals. "Our statesmen considered the condition and progress of England not by itself, but by reference to that of other nations; what they sought was not mere progress within their own land, but they wished to prosper relatively to other nations. They were not satisfied to aim at maintaining some standard of comfort, they desired to hold their own among the peoples of the world. In fact, the object of their ambition was to increase the power of the nation, and greater power implies a greater relative advance; greater power could be obtained by inflicting loss on others as well as by attaining positive gain for England; it has distinct reference to a relative condition."¹

The policy so outlined has reference equally to the other nation-states which, in the sixteenth century, emerged from the ruins of mediaeval Europe. France at last, by absorbing Brittany, completed the long process of consolidation of her territory. The union of Castile and Aragon led quickly to the expulsion of the Moors from Spain, and to the rise of a strong monarchy. Portugal, Denmark, Sweden, Bohemia, and Hungary were less powerful, but no less aggressive nation-states.

Economic Effects of the Reformation.

The Reformation (the general term by which we refer to the withdrawal of national churches from allegiance to Rome, and the accompanying changes in doctrine and the practice of divine worship) was not without its economic aspect. The bitter persecutions

¹ Cunningham : *Growth of English Industry and Commerce*, page 423.

which attended religious strife have much to do with colonization, for the desire to establish new communities where worship might take place according to the convictions of the settlers, was a powerful motive urging men to try the hazard of life in unknown lands. Furthermore, the confiscation of monastic property produced a vast redistribution of wealth among the members of every community which embraced the Protestant faith. In so far as the wealth of the Middle Ages passed into the hands of the religious houses, it was withdrawn from productive use, much of it being immobilized in the form of costly ornament and plate. The new holders of this enormous fund of accumulated wealth belonged mainly to the class of officials and courtiers whom the kings of the sixteenth century recruited from the professional and commercial classes. These preferred to use their new-found riches in speculative enterprise.

Thus wealth again became fluid, and flowed easily along any channel which promised to lead to profit. Capitalistic enterprise was not unknown even during the Middle Ages. The weaving industry in England was already organized by capitalists. But the sixteenth century saw a vast extension of undertakings of this kind, especially in the countries fortunate enough to be situated on the main lines of commerce. The increase of fluid capital was both cause and effect of the bold enterprise which led to the opening up and exploiting of the New World, the planting of colonies, and the development of manufacture to cope with the demands of a vastly enlarged market.

EXPLORATION AND DISCOVERY

Since the days of the ancient Phoenicians a tradition had lived on in Europe that it was possible to circumnavigate Africa. But it was not mere curiosity which

impelled Prince Henry of Portugal, in 1420, to investigate this possibility. For it was known that if ships could circumnavigate Africa, India could be reached without the necessity for land travel. The conquests of the Ottoman Turks in Asia had cut two important lines of land communication with India, viz. that from the Levantine coast to Antioch, the Tigris, Baghdad and Basra on the Persian Gulf, and that from Trebizond on the Black Sea, *via* Armenia to the Tigris, and thence as before. Only one safe route remained, namely, that *via* Alexandria and Cairo to Aden and down the Red Sea. But traffic along this route was costly on account of heavy tolls levied by the Sultan of Egypt, and the necessity for frequent transshipment and "breaking of bulk" for the desert passage. The Venetians had a practical monopoly of Eastern trade by this route, exchanging the products of Europe for those of India at ports on the Persian Gulf, where they met the Arabs who controlled the commerce of the Indian Ocean. The discovery of an ocean route to India, therefore, held out a prospect of enormous wealth for Portuguese traders, who would be able to send cargoes direct to India without toll, transshipment, or breaking of bulk, and without leaving most of the profits as commission in the hands of the Venetian shippers.

The Sea-Route to India.

Prince Henry did not live to see the accomplishment of the purpose to which he steadily devoted himself for forty years (1420-60). But much was learned of the arts of navigation and shipbuilding and the science of astronomy, and after his death the quest continued. In 1471 the Equator was crossed. In 1487 Bartholomew Diaz reached the "Cape of Storms." Ten years later Vasco da Gama rounded the Cape, sailed along the East coast as far as Melinde, and then, piloted by an

Arabian sailor, struck across the Indian Ocean to Calicut. The expenses of each expedition were easily met out of the sale of gold dust and slaves from the African coast, and Portugal secured to herself, by an international agreement, the monopoly of this trade.

The trail thus blazed was followed immediately by Alvarez Cabral, who in 1499 went out to establish factories and to set up agencies. For five years the Portuguese, although enjoying the protection of some native chiefs, had to encounter the hostility of others. Moreover, the Arabs, who controlled the trade of the Indian Ocean, and the Venetians who were their chief customers, finding their monopoly slipping away from them, determined to drive away their rivals. But their expedition failed, and the Portuguese, left masters of the field, took up the attack. They raided the Arabian stations on the Red Sea and pushed on to the Spice Islands and beyond. Within twenty years they were in undisputed control of the commerce of Southern Asia from the Persian Gulf to Japan.

THE COMMERCIAL EMPIRE OF PORTUGAL

The Portuguese thus entered into the inheritance of the fabulous wealth of the ancient East. They had none of the heavy labours of pioneers to face. All was ready to their hand—a well-developed commercial organization, excellent native manufactures, ports and harbours, clearly-defined channels along which trade moved easily. Like the purchaser of a well-ordered estate or business, they took it over as a “going concern,” including the “goodwill.” The sources of the merchandise were the same; the destination was the same; the route only was changed. The transport

charges were so considerably reduced that the trade now provided enormously increased profits. Nevertheless, the Portuguese had but a precarious hold upon the East. The sovereignty which they claimed was vague, and extended in fact little beyond the coastal military and trading posts and the harbours. They made no attempt to penetrate into the hinterlands. They remained traders and navigators rather than colonists or administrators.

Character of Portuguese Trade.

The trade was regulated as a Crown monopoly. Most careful precautions were taken to suppress unauthorized private dealing. Patrols watched the coast north and south of Goa to see that no native boats carried goods without permits. Prices were regulated by treaty with native princes. Arabs and Moors were allowed to exploit the interior, but only under licence from the Portuguese, from and to whom alone they were permitted to buy and sell. A convoy of merchant-men, guarded by ships of war, sailed out from Lisbon in the early part of each year. The fleet called at African ports and waited at Natal, Madagascar or Mozambique, until the change of monsoons brought a wind favourable for the passage of the Indian Ocean. Goa was the central depot and political capital of the Portuguese in the East, and here the wares of Europe and those which had been collected at the African ports on the outward journey were exchanged for spices and silks. On the return journey the fleet sailed out into the Atlantic as far as St. Helena. The journey out and home occupied eighteen months or more. On arrival at Lisbon the fleet was met by traders from England, Flanders, and the Hansa ports who distributed their purchases over Northern Europe.

The Papal Award.

It is very probable that, even without the enterprise of Columbus, the Portuguese, in the course of their voyages to the Cape, would sooner or later have stumbled upon the Western Continent. For in their journey southwards from Cadiz they were frequently carried far into the Atlantic by equatorial winds and currents. In 1499, Cabral, in the voyage which succeeded Vasco da Gama's, was actually carried to the shores of Brazil. A papal bull had, in 1494, given to Portugal all lands that might be discovered east of the meridian which passed through a point 370 leagues west of Cape Verde Islands, and to Spain all west of that line. Cabral, finding his discovery to lie within the limits allocated to Portugal, planted the royal flag and sent home a ship to announce the fact. The following year King Emanuel of Portugal sent Americus Vesputius to explore the "new world." He followed the coast from Cape St. Roque to the Plate River, and so staked out roughly the Portuguese claim. His name was given to the new continent.

The Portuguese in Brazil.

It has already been said that the Portuguese were above all traders and navigators. The profits of the Eastern trade were considerable. Vasco da Gama's first expedition yielded sixty-fold the cost of the enterprise. But the weakness of Portugal was in the backward condition of her own industries. She had few products of home manufacture to exchange for the spices of the East. For outward cargoes she had to rely upon other countries, particularly England and Holland. Brazil, being undeveloped, had at first as little to offer to Portugal as Portugal to Brazil. The profit from the western part of the Empire was therefore inconsiderable, and it became still less when, by the

union of Portugal with Spain (which lasted from 1580–1640), the vicious colonial system of the latter was fastened upon Brazil. During the sixty years of her bondage, Portugal suffered the loss of most of her Eastern possessions, in which Spain was not interested. The island portions fell to the Dutch, the mainland to the English. Except for Goa and one or two other stations, nothing remained to Portugal of her far-flung Empire except Brazil in the West.

From about 1654 when the Dutch intruders were driven out, the development of Brazil went on rapidly. Gold was discovered, and later (1728) diamonds. Still more important was the cultivation of the sugar-cane. The Brazilian forests yielded many valuable woods from which drugs and dyes were prepared, and bark for tanning. But the profits of Brazilian trade passed into other hands than Portuguese. For the wares which they carried to the West were not their own but were supplied from England. The economic dependence of Portugal upon England was formally recognized in the Methuen Treaty of 1703, whereby it was agreed that in return for the admission of English woollen cloth into Portuguese markets, the English tariff should be modified in favour of Portuguese, and to the detriment of French, wines.¹

THE COMMERCIAL EMPIRE OF SPAIN

The fabulous profits which Portugal derived from trading expeditions down the coast of Africa produced in Spain a spirit of emulation. But the Pope having granted to Portugal the sole right of navigating Eastern waters, the only hope for Spain was to discover an alternative route by sailing westward. There was an

¹ For a fuller discussion of the Methuen Treaty, see Chapter IX.

ancient tradition that land lay beyond the Western horizon, and as the growing conviction that the world was round gave probability to the truth of this belief, it was inevitable that someone should at last summon up courage enough to put it to the test.

Christopher Columbus.

Columbus had as early as 1484 petitioned King John of Portugal to equip for him a ship to sail westward, explaining his plans and the grounds for his confidence in thinking that he would reach the Spice Islands. King John refused the terms which Columbus offered, but kept the plans and gave them to one of his own captains, who, however, failed to make much of them. Columbus thereupon persistently offered his services to King Ferdinand of Spain. After some years of delay his importunity was rewarded, and in 1492 the little fleet of three ships, carrying a total crew of ninety men, sailed from Palos.

The story of the voyage need not here be told. It lasted from the 3rd of August to the 12th of October. Columbus landed at the island of San Salvador, and thence explored Cuba and Hispaniola. He was convinced that he had reached the island fringe of the eastward-facing coast of Asia, and his contemporaries were so much in agreement with him that it never occurred to anyone to suggest, some years later, when Americus Vesputius' name was given to the Western Continent, that the honour was really due to Columbus. In succeeding voyages the islands were further explored and the mainland reached. But people continued to be in ignorance of the real facts of the situation, until Balboa, on crossing the isthmus of Panama in 1513, and beholding the Pacific Ocean, woke up to the truth that another vast expanse of water interposed itself between the West Indies and the real East. How

vast it was Magellan discovered when he made the first circumnavigation of the globe (1519-22), sailing westward through the straits known by his name, striking across the wide Pacific to the Spice Islands, and finally returning by the Cape route.

The Spanish Empire in the West.

Armed with papal authority, Spain at once declared to the world that the monopoly of Western trade belonged to her, as surely as the Eastern monopoly belonged to Portugal. But there were striking contrasts between the problems which these two new commercial empires presented. For while Portugal was brought into touch with the ancient and highly-developed civilization of the populous East, Spain found that the commercial resources of the "new lands" had still to be discovered and organized. They found, indeed, a native population and even some city life in Mexico. But the native peoples were ignorant of Western arts (including the use of firearms), and they fell easy victims to the invaders. The Spanish Empire, therefore, unlike the Portuguese, was not a shadowy suzerainty, but a complete despotism. It rested on the enslavement or extermination of the entire native populations, whose labour was cruelly exploited in the gold and silver mines. When the supply of native labour gave out, African negroes were imported to make up the deficiency.

The Spanish in America quickly found evidence of the presence of the precious metals (especially silver) in rich abundance, and the glowing reports of Eldorado which reached Spain impelled every courtier of broken fortunes to rush to the West to repair them. Within a few years the Silver Fleet was making regular crossings of the Atlantic, and silver bullion in enormous quantities was pouring into Europe.

The prosperity which Spain enjoyed at this time was superficial and transitory, for it was not based on the sure foundation of native industry. While her neighbours were learning to use their political and religious freedom, the Spanish people, still dominated by the conservative forces of the Church, the feudal magnates, and a corrupt bureaucracy, had never developed much interest in commerce and industry. They were adventurous, and preferred enterprises which promised a quick return in wealth and luxury to those which demanded the quiet courage and the patient labour of the successful pioneer-colonist. The most diligent and skilful manufacturers and traders in Spain had been the Moors and the Jews, to whom the proud Spanish were content to leave the somewhat "dishonourable" dealings of commerce. The Moors were driven out in 1492 when Granada, the last of their strongholds fell ; the Jews were expelled soon after at the dictation of fanatical ecclesiastics. The "new rich" of Spain expended their enormous wealth in purchasing the luxuries of every country in Europe, instead of using it productively to develop the resources of their own country. The abundance of money for a time stimulated a few native industries, particularly the manufacture of wool, silk, leather, and soap, which profited by the general advance in purchasing power.

The Effects of Inflation.

Then followed the inevitable slump. The quantity of currency in circulation increased so rapidly that it outstripped the increase in the number of commercial transactions for which it was required. Currency, therefore, depreciated in value, and the purchasing power of a silver coin fell to less than one-third of its former level. In other words, the prices of commodities increased at least threefold. Since wages lagged behind

prices, the rise in the cost of living caused great distress among certain classes, and at the same time brought enormous profits to the pockets of financial speculators and dealers. These consequences were by no means confined to Spain ; they are to be found in the economic history of every country of Western Europe into which Spanish silver found its way. They produced important political effects. For the customary revenues of the kings were no longer adequate to meet the growing cost of government, and the basis of taxation had to be broadened. The results were not always alike. During the struggle between Crown and Parliament in England for the control of national finance, the foundations of democratic government were laid. In Spain the lack of any strong political instinct among the people left them helpless victims of the tax-free nobility, who loaded industry and even retail trade with taxes so onerous that enterprise was crushed under the burden.

Restrictions on Colonial Enterprise.

The Spanish colonies suffered equally from a vicious commercial system. The sole interest of the colonists was in their proprietorship of the mines, and the sole interest of the government was in the fifth share of the output which was paid as tax. No encouragement was given to agriculture, stock-breeding, or the development of the raw materials which might have contributed to the growth of home manufactures. The cultivation of the olive and the vine in America, for example, was suppressed in the interests of home producers of oil and wine. Colonial manufactures were, in accordance with mercantile principles, totally forbidden. The trade of the colonies was regulated wholly in the interests of the home country. To enable this control to be more effectively exercised by

the government, as well as for greater security against piracy, ships had to sail in convoys from one specified port to another (usually Cadiz to Vera Cruz).

Little encouragement was given to emigration and the development of colonial markets. No one was allowed to engage in trade who was not born in Spain. The colonist was forbidden to leave the district where he was authorized to settle. To prevent loss of revenue to the home government, inter-colonial trade was carefully restricted. The settlers were compelled to purchase European goods from the merchants accompanying the royal convoys and at prices fixed in Spain.

Illicit Trade.

The system of regulation and monopolistic control was carried so far that there was an enormous temptation among the colonists to engage in illicit trading. The coast-line was so extended that the royal patrol was of little avail to check smuggling, which in fact grew to such proportions that the convoys on arrival at Vera Cruz sometimes found that the colonists were already provided with all they needed. The Dutch of New Holland and the English of New England throughout the seventeenth and eighteenth centuries made large profits from this contraband trade, using their island possessions among the West Indies as headquarters. The attempt of Spain to preserve her monopoly led to the long series of naval and colonial wars with England, in which the principal bone of contention was the Spanish claim to the "right of search." Several attempts were made by the home governments to control inter-colonial transactions, but the interest of the colonists themselves in the profits of unauthorized trade was so great that these attempts consistently failed.

Economic Decline of Spain.

The economic decline of Spain was hastened by political causes. The successful revolt of the Netherlands in 1579 was the first great blow. The failure of the Armada was the second. Meanwhile, the English "sea-dogs" were attacking the treasure-fleets and raiding the harbours, carrying on a kind of privateering warfare which was hardly distinguishable from simple piracy, though encouraged by Queen Elizabeth for reasons of State.

COMMERCIAL EMPIRE OF THE DUTCH

The Netherlands, during the century and a half which lay between 1500 and 1650, rose to the position of the premier trading nation of the world. During the earlier half of the period, Antwerp was the emporium for the trade of Northern and Southern Europe, having now displaced Bruges. The city had the advantage of tidal water which floated her ships in and out of capacious harbours; and behind her lay rich pastures, producing abundance of wool for manufacture, and dairy produce for export. For the herring fisheries of the Baltic and North Seas, Antwerp was well situated, and these were still the chief source of her wealth. She had also a considerable entrepôt trade, which was promoted by a comparatively liberal commercial policy. Her ships distributed cured herrings as fasting-food to every country in Catholic Europe, Germany being reached by the Rhine route, and France, Spain, and Portugal by sea. The Netherlands carried also corn from the granaries of the North—Russia, Poland, and Prussia—to feed the nations of the West. Even during the seventeenth century, when the Dutch ousted the Portuguese from the spice trade, the carrying trade along the northern and western shores of Europe was still the backbone of Dutch

commerce, and continued to be so until England, under Cromwell and Charles II, stiffened the navigation laws and fought the Dutch for supremacy in home waters.

It is necessary to distinguish between the northern and the southern provinces, for the effects of the long struggle with Spain were not alike in every part of the Low Countries. These formed a section of the great Empire of Philip II of Spain, a contemporary of Queen Elizabeth. But the northern portion (corresponding to modern Holland) had embraced the Protestant faith, and in 1576 declared its independence, while the southern provinces (corresponding to modern Belgium) remained loyal to Spain and the Catholic Church. The southern provinces, which contained the cities of Antwerp, Bruges, Ghent, Ypres, and Cambrai were until this time the more populous and progressive, but the ravages of the Dutch War of Independence destroyed much of their prosperity and drove thousands of refugees, including many skilful craftsmen, from the industrial areas of the south into the agricultural northern parts. Antwerp was ruined. By the end of the war in 1609 the Protestant north had outstripped the Catholic south in population and in trade, and the free and enterprising Dutch were rapidly building up a vast commercial system, which centred in Amsterdam. No longer content, as the merchants of Antwerp had been, to control the sea-coast trade of Northern and Western Europe, those of Amsterdam began to engage in oceanic commerce.

The Dutch in the East.

Hitherto the spices of the East had come first to Lisbon and were there distributed by the ships of Antwerp among the northern nations. But as an act of war, Philip II closed the port of Lisbon to Dutch merchant ships, and tried to suppress all commerce

between the Netherlands and the Spanish peninsula. The blockade was a failure because the Spanish could not dispense with the corn and cloth for which they had long been dependent upon the Dutch. The first result of Philip's policy was to rob himself of much of the revenue from legitimate trade, and to throw the profits of intercourse into the hands of smugglers. The second consequence was to compel the merchants of Amsterdam to invade the Portuguese monopoly of the spice trade. They attempted to reach the East *via* the North Sea and Arctic Ocean, but finding this route impracticable, they boldly dispatched a fleet of merchantmen in 1595, to Java, *via* the Cape route. Encouraged by the success of this venture, other associations were formed to exploit the East Indies. These were in 1602 amalgamated to form the Dutch East India Company, which carried on operations under a monopoly conceded in the first instance for twenty-one years by the Dutch Republic. Either by peaceful penetration or by the force of arms, the Dutch quickly secured control of all Eastern trade. The Portuguese monopoly was found to rest on very insecure foundations and was easily overthrown.

The Dutch East India Company.

The chief centres of the new monopoly were at Java (where Batavia was built), Sumatra, and the Moluccas among the islands, and on the Malabar and Coromandel coasts on the mainland. The Dutch established factories also farther east in Siam, Formosa, and Japan. Since the whole of the trade of the East was in luxury articles, it was to the interest of the Dutch to keep up prices and profits by artificially producing or maintaining scarcity, to the extent even of destroying groves of nutmeg and cloves in areas where the output could not easily be controlled, or of burning the surplus

of good harvests. The plantations were worked by forced native labour, cruelly and greedily exploited to produce big dividends for the associated companies.¹ In the fashion of the time, all trade between Holland and the East was carried in convoys of merchantmen, protected by ships of war. On the outward journey they carried European manufactured goods and silver, which was now in demand for Indian currency. The routes they used were kept jealously secret, and they permitted no maps of the Spice Archipelago to be published.

The Dutch East India Company gradually acquired rights which amounted almost to those of independent sovereignty. It entered into treaties with native rulers, maintained armed forces on sea and on land, and set up courts of justice. In home politics also it achieved a commanding influence, and for a long time it successfully resisted all attempts to open up Eastern trade to private enterprise. It is to be noted that the Company was an association not of individuals but of smaller companies, and resembled therefore in some respects a trust rather than a joint stock company of which the capital is held by individual shareholders. Under the auspices of the Company, a Dutch colony, called the "Cape Colony," settled in South Africa during the seventeenth century, and built Cape Town. Here Dutch ships *en route* for the East put in for refitting and revictualling.

The Dutch in the West.

During the War of Independence the Dutch had secured important profits by privateering in the Atlantic, and by smuggling among the West Indies. Dutch interests in the West were promoted also by

¹ Throughout its history of nearly 200 years, the dividend of the Dutch East India Company averaged 18 per cent.

Henry Hudson, who, having searched in vain for a North-east passage to India in 1609, turned westward in the hope of discovering a North-west passage. Foiled in his enterprise once again by the icebound seas to the north of Canada, he sailed southward along the coast of Labrador, running his ship, the *Half-Moon*, into each broad inlet which gave hope of being a connecting strait between the Atlantic and the Pacific. He navigated the Hudson River to its junction with the Mohawk, and appropriated the region in the name of the Dutch Republic. At the mouth of the river, on Manhattan Island, a settlement was made in 1614 called "New Amsterdam." Shortly afterwards settlements were made in Guiana, Curaçao, and Brazil. To unite the interests of merchants trading with these settlements, the Dutch West India Company was formed in 1629. On its directorate of nineteen members, the various "chambers" of merchants were represented in proportion to their share capital. Its first charter was granted for twenty-four years, but was afterwards frequently renewed. The Company's sphere of operations was defined as extending to all the Atlantic coast of America, from Newfoundland to Cape Horn, and to the Pacific Coast, from Cape Horn to Panama. It included also West Africa from Gibraltar to the Cape.

The same strict monopoly was exercised in the West as in the East. The chief trade in North America was in furs, and this was centred in New Amsterdam. All fur traders were compelled to bring their pelts to the Company's depots, and to pay duties on them. Manufactures (for example, weaving) which might enter into competition with home industries were forbidden. Trade intercourse with the natives, and also with the adjoining English and Swedish settlements, was strictly regulated. So vexatious to the colonists of all nations

were these restrictions and so heavy were the impositions, that the contraband trade grew to greater proportions than the legitimate. Smuggling was carried on not only by the free colonists at the expense of the Dutch West India Company, but by the agents of the Company itself at the expense of the colonials of other nations, especially the Spanish and Portuguese. Curaçao, in the Caribbean Sea, was the den of the smugglers, and a refuge for the privateers which preyed upon the silver fleets. The dividends paid by the Company were in fact mainly dependent upon the profits of illicit trade, which included slave-raiding on the African coast.

Dutch Finance.

The story of Dutch commerce provides an example of a country which combined a free and enlightened political and religious system in her own territory, with an external commercial system based on rigid monopoly and strict regulation. The protection which the Republic afforded to political and religious exiles encouraged the immigration of some of the finest and most independent spirits from the surrounding countries. These brought their capital, their skill, and their enterprise to aid the rise of Dutch commerce. The opening of the country to the Jews increased the trading capital of Holland still more. Amsterdam became the new financial centre of Europe, and a busy market was created in the stocks and shares of the great trading companies of the seventeenth century. The Dutch did not, like the Portuguese and Spanish, waste the profits of their widespread commerce in lavish and unproductive expenditure. They preferred to capitalize their profits, and there was therefore always an abundance of loanable money available for commercial speculation or for government borrowing.

It is said that at the end of the seventeenth century, money could be borrowed in Holland at 3 per cent at a time when in France and England it could not be got under 8 per cent.¹

The Tulip Boom.

The superabundance of floating capital gave rise to the mania for speculation of which the "tulip boom" (1634-7) was one of the earliest manifestations. How and why the craze should have obtained such a hold of the Dutch people is something of a mystery, as inexplicable as the vogue of an absurd fashion or nonsense rhyme, but much more serious in its consequences. Tulips were common enough, but certain varieties of them became invested with artificial values. The growing demand for them sent up the prices, and in an incredibly short space of time the whole population was caught up in a mad stampede for possession of the coveted bulbs. Money that had been accumulated by long and painful effort was now at last brought from its secret store and invested in the purchase of a tulip which gave promise of unimagined wealth for its possessor. Not only existing bulbs but "futures" were bought and sold eagerly, and a fractional rise or fall in tulip values came to be regarded as an economic event of national importance. Dealers made large fortunes by holding in a rising market and selling out before the bubble burst, as it was bound to do. The collapse, when it came, was even more sudden than the boom; and in the panic to realize profits, tulips were thrown on the market in such quantities that not

¹ Cunningham: *Western Civilization (Modern Times)*, page 201: "The Dutch . . . outdistanced the English merchants . . . chiefly because there was an abundance of money in Holland which could always be obtained for new enterprises that offered the prospect of a moderate return on the capital invested." And see Chapter VII of this volume.

only profits but capital also vanished. In the history of commerce the story of the tulip boom is significant ; for it shows that a market for stocks and shares was already well organized, that the stock-jobber was already operating as in a modern bourse, and that progress had been made even in highly speculative dealing in " options " and " futures " on a basis of slender credit.

The Navigation Acts.

The rapid rise of Holland within the space of half a century (about 1600 to 1650) to the status of a world power coincided with the expansion of England, and in the New World the two powers were brought into close rivalry. In the struggle for ascendancy, the Dutch for a time gained the mastery because their resources were greater. The shipbuilding industry in Holland was better developed ; her manufactures were more varied. It is said that for every English ship entering a Dutch port, fifteen Dutch ships entered English ports.¹ Moreover, as we have already seen, trading capital was more plentiful in Holland.

Sir Walter Raleigh confesses that the merchant ships of England were not to be compared with those of the Dutch, who could sail their ships with one-third of the crew thought necessary in an English ship of equal size. He remarks also on the more liberal commercial policy adopted in Dutch ports. In consequence her carrying trade with Northern Europe was far greater than that of England ; " And yet the situation of England lieth far better for a storehouse to serve the south-east and the north-east kingdoms than theirs do, and we have far the better means to do it if we apply ourselves to do it." ² Lastly, the possession of the

¹ Spears : *Master Mariners*, page 173.

² Lindsay : *History of Merchant Shipping*, II, pages 162-3.

Cape of Good Hope gave the Dutch an enormous advantage over England in the prosecution of Eastern trade.

To compel the United Provinces to share with England the carrying trade of the West, the Navigation Act of 1651 was passed, declaring that "no goods or commodities whatever of the growth, production or manufacture of Asia, Africa or America should be imported either into England or Ireland or any of the plantations of Great Britain, except in British built ships, owned by British subjects, and of which the master and three-fourths of the crew belonged to that country."¹ A further enactment declared that no goods emanating from Europe should be brought into Great Britain except in British ships, or in ships belonging to the country of origin.

First, Second, and Third Dutch Wars.

The Act was deliberately intended to destroy the monopoly of the Dutch who had few commodities of their own to export, and whose ships were mostly engaged in carrying the produce of other countries. The commercial jealousy of fifty years was fanned into war in 1652. The genius of Admiral Blake secured for England the control of the Channel ; many prizes were captured ; and in the treaty of 1654 the Dutch acknowledged British supremacy in home waters, and agreed that Dutch ships should strike their flag to the ships of the Commonwealth. Legislation under Charles II carried still further the prohibition against Dutch trade, and the Second Dutch war broke out in 1664, in which year New Amsterdam was captured and renamed New York. Again, in 1672, there were hostilities prompted by Louis XIV of France. In the

¹ Lindsay : *History of Merchant Shipping*, II, page 184.

Channel a Dutch fleet of merchantmen was unsuccessfully attacked, and de Ruyter won a naval victory at Solebay.

Decline of Holland.

In the course of these wars the maritime supremacy of Holland definitely passed to England. The Dutch West India Company, bankrupt in 1674, had to be reconstructed. An attempt was made to re-establish its trade under a less restrictive policy, but although it survived until 1790, its work was really over long before. Only in Guiana did the Dutch maintain a foothold in the West. Surinam was ceded in 1667 by the Treaty of Breda. A few small stations remained in Dutch hands on the West African coast. The inheritance of world trade had passed from Holland, and the commercial struggle of the eighteenth century was carried on between England and France.

CHAPTER VIII

ENGLAND AND FRANCE : A RACE FOR EMPIRE AND COMMERCIAL SUPREMACY

THE accession of Henry VII brought social and political changes which caused a quickening of the pulse of English trade. By establishing the royal authority on a firm, independent basis, he built up the "Tudor peace," which was an indispensable condition of commercial progress. He called to his counsels and invested with power men of the trading class in place of members of feudal families, and raised up in this way an official nobility. Henry VII accumulated great wealth, largely by commercial adventures on his own account, and laboured to secure for the nation by treaties with continental powers (e.g. Flanders and Florence) the most favourable terms possible. By the *Magnus Intercursus* with Flanders, the wool trade, which to the detriment of both countries had been interrupted, was resumed. During the Tudor reigns there was a considerable redistribution of wealth in England, and in particular the break-up of feudal and monastic estates set free the land from restraints upon use, sale and transfer, and rendered it possible for new wealth to be invested in landed property. In consequence, agriculture and industry were able to progress side by side, the one gaining strength from, and supplying the needs of, the other.

THE GREAT TRADING COMPANIES

We have seen that the foreign trade of England at the end of the fifteenth century was in the hands of the Merchant Adventurers, who were gradually forcing

their way into the markets of the Hanseatic League and pressing on even into the Mediterranean. The beginnings of our transoceanic commerce are due to the encouragement of the early Tudor kings. In 1496 Henry VII granted to John Cabot, a Venetian resident in Bristol, and to his three sons, a patent authorizing them to fit out an expedition "upon their own proper costs and charges" to "sail to all parts, countries, and seas of the East, of the West and of the North" on condition that a fifth of the profits of the enterprise should be paid to the royal treasury. The first voyage, in 1497, was devoted to the discovery of a north-west passage to India, and in the course of it Sebastian Cabot landed in Newfoundland. A second expedition set sail in 1498, and this time a number of English merchants "adventured" small consignments of their goods, and a hundred men accompanied Cabot with the intention of establishing a colony. After a number of years spent in the service of the King of Spain, Sebastian Cabot, in old age, returned to Bristol in 1549, and did much to promote navigation and commercial adventure. One expedition in particular is important, for it led to the establishment of trade relations with Russia.

The Muscovy Company.

Sir Hugh Willoughby and Richard Chancellor set sail from the Thames in 1553 with a small fleet, making for a rendezvous in Norway. Storms separated them, and Willoughby, with the crews of two ships, driven far into Arctic regions, perished of cold and hunger. Chancellor proceeded to the North-east, landed near the site of Archangel, and after securing the friendship of the native population, penetrated into the interior. He reached Moscow and there entered into dealings with the Russians, which led soon after to the arrival

of the first Russian ambassador in London, and to the founding of the Muscovy Company.

A Description of Middle East Trade.

Along the land route thus opened up to the East, England was able to draw the products of Persian and Caspian markets, from which, on account of the Portuguese monopoly of seaborne trade, she had hitherto been excluded. Anthony Jenkinson, in 1561, carried letters of Queen Elizabeth "to the Great Sophie, Emperor of the Persians, Medes, etc.," and by his travels in the regions lying on all sides of the Caspian, he added much to our knowledge of the Middle East and of its commercial possibilities. Hakluyt tells us in Jenkinson's words some interesting facts about the trade of Bokhara—

" Their money is silver and copper, for gold there is none current. They have but one piece of silver and that is worth twelve pence English . . . which the King causeth to rise and fall to his own advantage, every other month and sometimes twice a month ; not fearing to oppress his people, for that he looketh not to reign above two or three years before he be either slain or driven away, to the great destruction of the country and merchants. . . . There is yearly great resort of merchants to this city of Boghar, which travel in great caravans from the countries thereabout adjoining, as India, Persia, Balgh (between Bokhara and Afghanistan), Russia, and in times past from Cathay, when there was passage. But these merchants are so beggarly and poor, and bring so little quantity of wares, lying two or three years to sell the same, that there is no hope of any good trade there to be had worthy the following.

" The chief commodities that are brought thither out of these foresaid countries are these following: The Indians do bring fine whites, which the Tartars

do all roll about their heads, and all other kinds of whites, which serve for apparel, made of cotton wool and craska ; but gold, silver, precious stones and spices they bring none. I inquired and perceived that all such trade passeth to the Ocean sea, and the veins where all such things are gotten are in the subjection of the Portugals.

“ The Indians carry from Boghar again wrought silks, red hides, slaves, and horses, with such like, but of Kerseys and other cloth they make little account. I offered to barter with merchants of those countries which came from the furthest parts of India, even from Bengal and the river Ganges, to give them Kerseys for their commodities, but they would not barter for such commodity as cloth.

“ The Persians do bring thither craska, woollen cloth, linen cloth, divers kinds of wrought pied silks, Argomacks, with such like, and do carry from thence red hides, with other Russe wares, and slaves, which are of divers countries ; but cloth they will buy none, for that they bring thither themselves, and is brought unto them, as I have inquired, from Aleppo in Syria, and the parts of Turkey.

“ The Russes do carry into Boghar red hides, sheepskins, woollen cloth of divers sorts, wooden vessels, bridles, saddles with such like, and do carry away from thence divers kinds of wares made of cotton wool, divers kinds of silks, craska, with other things, but there is but small utterance.

“ From the countries of Cathay are brought thither in time of peace, and when the way is open, musk, rhubarb, satin, damask, with divers other things.”

The Eastland Company.

The use of the roundabout Archangel route to Moscow was due to the difficulty of challenging the

domination which the Hansa held over the Baltic routes. Nevertheless, the enterprise of the Merchant Adventurers prospered even in this region, and in 1568 the Eastland Company was formed for trade with the Baltic coastlands. The main export to these countries was English cloth and the re-exported products of the East Indies (e.g. spices). In return, England drew materials for shipbuilding: timber, tar, pitch, hemp for cordage; animal products, such as fur, hides, tallow, wax, honey; and metals, especially copper, iron, and quicksilver.

The Levant Company.

According to Hakluyt, the annual voyages of the ships of London, Southampton, and Bristol to the Levant began in 1511. Having first established a staple for English wool at Pisa they pushed on to the islands of the Eastern Mediterranean—Chios, Crete, and Cyprus—and finally obtained a footing on the mainland at Tripoli in Africa, Beirut in Syria, and Smyrna and Aleppo in Asia Minor. The articles of trade were mainly those dealt in by grocers; for example, currants, coffee, pepper, cinnamon, sweet oils;¹ but in addition, English Kerseys, fine and coarse, were exchanged for silks and carpets, rhubarb, malmseys, muscatels and other wines, and mohair. In 1581 some members of the Grocers' Company became incorporated as the Turkey Company, competing with Venetians and Florentines. The Company did not surrender its monopoly until 1825, but the decline of Mediterranean in relation to Atlantic trade deprived the Company of much of its importance long before that date.

The East India Company.

By far the greatest of the English trading companies

¹ Sometimes known as "Italian stores."

was the "Company of Merchants of London trading into the East Indies," usually known as the East India Company. Keen interest had been aroused by the capture off the Azores of a Portuguese East Indiaman laden with gold, spice, calicoes, silks, pearls, drugs, porcelain, and ivory. Hakluyt tells us that thereby the English nation became acquainted "more generally with the particularities of the exceeding riches and wealth of the East Indies," and were encouraged to claim a share of them. More than two hundred merchants, shipowners, and citizens were incorporated in 1600 with a capital of £72,000. This sum was invested as to £45,000 in five ships, varying from 600 down to 130 tons, and as to £27,000 in cargoes, arms, and ammunition. They carried silver bullion, iron, tin, kerseys, cutlery, and glass. The first expedition was to the island of Sumatra, and the return cargo was sold at a profit of 100 per cent.

Dutch Rivalry.


But the London merchants soon found that they had to meet the competition of the Dutch, who in 1602 had formed a rival East India Company, with an original capital of more than half a million sterling, a sum more nearly answering to the commercial possibilities of the East than the modest capital of the English Company. When the latter began to establish factories in Sumatra, Surat, Java, Borneo, Malacca, Siam, and the Malabar and Coromandel coasts, the Dutch began to complain of encroachment in the markets from which they themselves had only recently ousted the Portuguese.

The rivalry between Dutch and English in the East was marked by some tragic incidents, such as the massacre of the English at Amboyna in 1623. But finally a compromise was reached, whereby the Dutch

company confined its operations chiefly to the Archipelago, and the English company chiefly to the mainland. Fort St. George (Madras) was built in 1640, and five years later trading stations were established on the coast of Bengal. Charles II, receiving Bombay as part of the marriage dowry of Princess Henrietta of France, transferred it to the Company. In 1689 the Mogul ceded Calcutta, afterwards protected by a military station, Fort William. The profits of the mainland trade were so much less than those of the island trade that the stock of the Company, which had in 1617 stood at a premium of 203 per cent, fell in the Commonwealth period to a discount of 40 per cent. Nevertheless the Company struggled on. It had its enemies at home as well as in the East, and in 1698 the Government, needing money for the French war, sold the monopoly to a new company for a consideration of two millions sterling, subject only to the continuing rights of the old company for three years longer. At the end of this period, however, the two companies were amalgamated as the United East India Company, and a renewed period of activity followed.

The Abolition of Monopoly.

During the eighteenth century the merchants of Liverpool, Bristol, and Glasgow continued to petition against renewals of the charter, and in favour of the policy of the "open door" in the East. Probably the profits of the Company were not as large as was generally supposed. Individual servants of the Company doubtless amassed large fortunes for themselves by private trading, and the evidence given in the trial of Warren Hastings (1788-95) proved the necessity for government control. This had, in fact, been set up in 1784, when the Privy Council appointed a Board

of Control to supervise the civil and military government of the territories of the Company, while nominally leaving the directors unfettered in their commercial operations. In 1796 the East Indian trade was partially opened to private enterprise, but since it was made a condition that cargoes should be carried only in the Company's ships, very little advantage was taken of this concession. Finally, in 1814, the Government yielded to the importunities of the "out-ports," and the policy of the "open door" prevailed, at any rate as far as India was concerned. The functions of "John Company" were gradually narrowed down to administration. After 1832, when commerce  China was thrown open, trading was altogether abandoned and the ships were sold. In 1858, after the Indian Mutiny, the Company ceased to exist, and its surviving functions were then vested in the Secretary of State for India.

The African Company.

The first Englishman to trade with the African coast was Captain John Hawkins, who in 1562 carried off three hundred negroes from Sierra Leone for sale as slaves to Spanish mineowners in Hispaniola. At this time the monopoly of the African coastal trade was claimed by Portugal, but a treaty in 1571 opened this traffic to the English on equal terms. In addition to the business of slave-raiding, there was an equally remunerative trade in gold dust and ivory. The Charter of the Royal African Company was granted in 1631, and was renewed at intervals until the territories it had acquired were taken over by the Crown.

From about 1640 the British began to challenge the Dutch slave trade. In 1662 the African Company entered into contracts to export annually to dealers in Jamaica a stated number of "pieces" of specified

stature and age. From this market the slaves were distributed either to the British plantations in the North or to the Spanish settlements in the South. By 1689, when the monopoly of the African Company was abolished, the annual exportation had reached about 20,000 negroes. The *Assiento* contract, arising out of the Treaty with Spain in 1713, for the supply of 4,800 slaves a year, was secured by the South Sea Company.

ENGLAND IN THE NEW WORLD

The history of permanent colonization by Englishmen in North America begins with the grant of a licence to Sir Humphrey Gilbert, in 1578, to discover and occupy as freehold any "remote, heathen, and barbarous lands not actually possessed of any Christian prince or people," subject to the usual payment to the Crown of one-fifth of all gold and silver ores. The capital was subscribed for the most part by the citizens of Southampton, and in 1583, Gilbert, with a colony of 200 men, landing at St. John's Harbour, planted the flag of England in Newfoundland. The colony failed to establish itself, and Gilbert perished on the return journey.

The Virginia Company.

His work was carried on by Sir Walter Raleigh to whom a similar charter was granted by Queen Elizabeth. In 1584 he sent out two ships to prospect the middle-coast region of North America, to which he had given the name Virginia. The following year Sir Richard Grenville took out a party of 108 settlers, ignorant of the conditions to be expected and unused to manual labour. These had a hard struggle and would have perished had not Drake unexpectedly arrived and brought them home. Yet another expedition went out in 1587, of which a party, exploring the same region a few years later, found no trace.

Causes of Early Failure.

The failure of these attempts was due to a misunderstanding of the problems to be solved, and the lack of a clear conception of the goal to be reached. While some were thinking only of the discovery of a new route to the East, others were seeking a home of rest from religious strife. Some were attracted by fabulous stories of untold wealth in the form of gold ; others were seeking to open up new markets for manufactured goods and new supplies of raw materials for English industry. Yet others went out in the spirit of free-booting adventurers, in company with men who were filled with missionary zeal on behalf of the souls of the misguided Redskins. The expeditions were poorly equipped with food-stores and the tools and implements required for pioneering work. The settlers were unprepared for the long and patient toil by which alone the soil would be made to yield increase, and when the natives proved unfriendly, their existence was precarious in the extreme.

Colonization of Virginia.

Colonization in the seventeenth century was undertaken in a more sober spirit. In 1606 a new patent for the settlement of Virginia was granted to the London Company, and this time the colony took firm root. The lesson had been learned, and when Captain John Smith went out to Jamestown in 1607, he sent home the warning that nothing was to be expected in that country save by labour. The later settlers were of a better type, mostly skilled craftsmen and ready-handed sons of yeomen from East Anglia, accustomed to open-air pursuits. These carried with them their love of political liberty ; they dealt fairly with the natives ; they formed communities as nearly as possible on the pattern of those they left behind. They looked upon

their settlements as new homes in which they might enjoy the happy and quiet freedom which, in the bitter religious strife of the old world, they could not find. As a colonial ideal this was immeasurably superior to the Spanish counterpart, and it was destined to prevail.

The tobacco plant was cultivated¹ and found to be profitable. Cattle were imported from England ; cereals were grown, and after a few years the colony was no longer dependent for its existence on food supplies sent out from England. The planters held their land not as tenancies but as freeholds ; thereby they were moved to expend their fullest exertions to the improvement of their property. The work of cultivation was carried on by African slaves, and the planters traded directly, whether as buyers or sellers, with Europe.

New England.

The Pilgrim Fathers, who occupied New England, found their sterile coastal strip less suitable for agriculture. But numerous rivers, affording abundant water-power, favoured the development of manufacturing industry ; also, the fisheries became so important that the colonists gradually captured much of the Newfoundland cod trade from the French. Timber for shipbuilding was plentiful and harbours numerous. The New Englanders drove a thriving business in skins and furs with the trappers of the forested north, who in 1670 became incorporated as the Hudson's Bay Company. To the south, the Dutch occupied New Holland, which cut off the northern from the southern colonies of England. But the conquest of this territory, in 1664, consolidated the English possessions on the

¹ By 1700 the export of tobacco to England amounted to 15,000,000 lb. annually.

Atlantic coast, so that they soon stretched from Newfoundland down to Carolina, and inland to the Appalachian ranges.

The West Indies.

During the seventeenth century the island possessions were considered to be much more valuable than the continental. The chief English settlement was Barbados. Here and in neighbouring islands, sugar was the most important product, the cane having been introduced from Brazil. Other crops were tobacco, cotton, indigo, cocoa, and ginger. Everywhere slave labour was employed on the plantations. There was no mercantile middle class; all the planters were aristocratic owner-farmers, most of them connected with the Royalist country gentry of England. The island colonies were at first much more thickly populated than the mainland. In 1700, Barbados had more than a quarter of a million inhabitants (two-thirds of them negro slaves), rather more than the whole of the population of the mainland settlements, although the proportion of negroes decreased rapidly towards the north.

Organization of Trading Companies.

There were two principal types of company organization: "regulated" and "joint stock," of which the former is the earlier. The regulated company was an association of traders who paid a fee to be admitted to the privileges of a monopoly granted by the Government. Their operations were limited to the field defined in the grant, and were circumscribed by detailed regulation concerning the commodities which might be exchanged, the routes that might be followed, and the ports that might be visited. The grant defined the amount of dues payable on exports and

imports, and numerous other matters. There was no trading stock belonging to the association as a whole ; each member operated with his own capital for his own profit, subject only to the regulations which bound them equally. Each was, however, expected to subscribe a certain sum annually to a common purse, out of which expenditure for the purposes of the trade as a whole were defrayed, including the maintenance of fortified stations (" factories "), and the salaries of ambassadors or agents. Examples of English regulated companies are the Merchant Adventurers, the Muscovy Company, the Levant Company, and the East India Company, which was at a later date reorganized on the joint stock principle.

Joint Stock Companies.

The joint stock company is a more advanced type of commercial organization, better suited to modern needs. The common purse of the regulated companies, which sufficed for the requirements of local trading, proved to be too shallow for the financing of transoceanic commerce. Moreover, it was a weakness of the regulated company that the bond of common interest was loose, private advantage easily conflicting with the advantage of the group. It lacked permanence because individual members who preferred at any time not to " adventure " anything were at liberty to withdraw. For that reason long periods sometimes elapsed when no enterprises were undertaken, and the regulated companies had to be frequently reconstituted. The chief merit of the joint stock principle was that it identified private interest with that of the whole body. The individual could benefit only in proportion to the prosperity of the company. A subscriber parted with the immediate control of his capital and entrusted it to a permanent

board of directors, who could not without loss allow it to lie idle. Thus the organization became permanent and its operations continuous. The joint stock company found a use for small private accumulations of hoarded capital. These in the aggregate were so large that capital undertakings were made possible on a much more extensive scale than ever before. Finally, the greater permanence of the association, and the averaging of risks over a broader basis, made it possible to sink capital in "long-dated" enterprises; that is to say, in those which promised a long period of waiting before the profits began to accrue. Thus, the regulated company was loose in texture, short-lived, with small capital, and little unity of purpose. The joint stock trading company, on the contrary, was a compact organization, permanent in character, operating with a large capital, and expressing a single purpose. Exclusive privileges were conceded to both, first as compensation for the risk involved in large capital outlay, and secondly as reward for the services they rendered in opening up new regions to commerce, and in guarding ocean routes for the nation's trade. The earliest joint stock enterprises are to be found in Italy. The Virginia and Massachusetts Company are later examples. By the eighteenth century this type had already become common, and in the nineteenth it became the predominant form of company organization, displacing almost entirely undertakings financed by the capital of individuals or "partners," but no longer enjoying the fruits of monopoly.

Importance of the Trading Companies.

The value of the work done by these pioneer companies in the development of the commerce of the world cannot easily be overestimated. For though privileged, their enterprises called for no small measure

of courage, of the patient as well as of the active kind. Without training in political administration, the servants of the companies found themselves often called upon to undertake the task of governing nations of backward peoples in circumstances which might have baffled the most expert statesmen. Though they knew little or nothing of the arts of war, and lacked equipment, necessity often forced them to leave the courting-house, to create armies out of nothing, and to exercise generalship of a totally unprecedented kind for the defence of their stations or for the protection of oppressed clients. They were sailors, explorers, pioneers, soldiers, magistrates, financiers, governors, missionaries, doctors, diplomats, as well as traders. Without knowing it, they were empire builders.

The Darien Company.

The early history of joint stock companies was marked by many failures, of which those of the Darien Company (1700) and the South Sea Company (1720) are examples. The former was established in Scotland with the object of founding a colony at Darien to prosecute trade with the Far East *via* the Isthmus of Panama. Trade with Darien was to be without restrictions, a proposal which alarmed the supporters of the English navigation laws. Further, the Company hoped to develop trade with Archangel and engage in whale-fishing, enterprises which would have brought it into conflict with the Russian and Greenland companies. Although a clash with Spanish interests in Central America was inevitable, and although the scheme was discountenanced in England, it was nevertheless taken up enthusiastically in Scotland, where the opposition of the English Government was thought to be mere jealousy inspired by the Dutch sympathies of William III. Scottish people of every

grade of society subscribed to the capital issue, and the expedition set out with high hopes. But within two years the settlers paid the penalty of undertaking such an ill-considered scheme. The promoters had no knowledge of the right kind of goods to export, and their capital was, in fact, inadequate. The poisonous climate proved to be an even greater enemy than the Spaniards themselves. Only a small remnant escaped to tell the bitter tale of failure to the thousands of ruined Scottish homes.

The South Sea Bubble.

The South Sea Company had for its object the development of trade on the coastlands washed by the South Atlantic. It began operations in 1711 by securing for a period of thirty years the monopoly of supplying Spanish America with African slaves; it engaged also in profitable whale-fishing. Then, with the concurrence of Parliament, the Company made a stupendous financial deal, undertaking the service of the whole of the National Debt¹ by a scheme of conversion, whereby the creditors of the nation exchanged their holdings of government stock and became shareholders of the Company. In return for this the Company was to enjoy all the benefits of the *Assiento* clause in the Treaty of Utrecht, and to draw on government credit.

So glowing were the anticipations of the promoters of the scheme, that a frenzy of speculation seized upon the nation. Thousands gambled in securities of the value of which they had not the remotest idea. Between April and July, 1720, the market price of South Sea Company shares rose from £120 to £1,020. Company promoters took advantage of the excited state of the public to launch all sorts of new schemes,

¹ At this time about £10,000,000.

some good, but the majority absurd or fantastic. "There were eleven fishing projects; ten insurance companies; two companies for the remittance of money; four salt companies; two sugar companies; eleven companies for settlement in, or trading to, America; two building companies; thirteen land companies; six oil companies; four harbour and river companies; four companies for supplying London with coal, cattle, and hay, and for paving the streets; six hemp, flax, and linen companies; five companies for carrying on the manufacture of silks and cottons; one for planting mulberry trees in Chelsea Park, and breeding silkworms; fifteen mining companies; and some sixty more miscellaneous bubbles of the most preposterous character. One undertaking actually obtained subscriptions for an object 'which in due time should be revealed.'"¹ There was a company for making salt-water fresh, and for exploiting an invention to produce perpetual motion.

Some of these companies, threatening to poach on the preserves of the South Sea Company, were sued by the latter, and in the startled pause which ensued, the nation came to its senses. It grew suddenly clear that the hopes of the promoters of the new companies, including the South Sea Company itself, were built on thin air. The bubble burst and prices quickly dropped. Thousands were ruined in the general collapse of credit. An inquiry by Parliament revealed the widespread complicity of important members of the Court and the Government in the misrepresentation which had duped the nation. A reconstruction of the Government brought Sir Robert Walpole into power, and inaugurated a long term of peace during which England, by means of commercial enterprise, accumulated the wealth that enabled her to finance the Seven Years War (1756-63).

¹ Lindsay: *History of Merchant Shipping*, pages 212-3.

Among the joint stock companies which survived the slump and then prospered, were the Royal Exchange and the London Assurance Companies.

Such large financial operations as those undertaken by the South Sea Company could not have been carried through without some machinery of credit and banking to facilitate the aggregation of small capital sums collected from private individuals, and their utilization for big schemes.¹

FRENCH EXPANSION

France has a compact territory with a seaboard on the open Atlantic, the English Channel, and the Mediterranean ; she possesses, moreover, many navigable rivers, a soil which gives a rich return to husbandry, and an equable and genial climate which enables the inhabitants to labour without interruption from excessive heat or cold ; the natural products of the land are highly diversified. Notwithstanding these and other advantages, France has not at any time, like Venice and the Hansa, Spain and Portugal, Holland and England, risen to unquestioned pre-eminence in commerce.

Obstacles to Commercial Development in France.

Commercial progress in France was, during the later Middle Ages, checked by the Hundred Years War and the opposition of the feudal nobility, and during the period of transition to modern times by the wars of religion. The trade of the country was mainly local. A vicious system of internal taxes on commodities, levied on the borders of every petty feudal demesne, hampered the free flow of commerce.

¹ The Development of Banking is described in Chapter XIII.

During the seventeenth century customs were levied on wine at no fewer than sixteen places between the Swiss frontier and Paris. Now and again an enlightened monarch such as Henri IV (1589-1610), and wise statesmen such as Sully and Richelieu, did what they could to encourage agriculture, manufactures, and commerce. But they did not succeed in eradicating the root evil. French society was divided up into horizontal strata. There was no vertical movement such as was common in English society, where many men of humble birth attained to noble rank, and the younger sons of the nobility were permitted to engage in commerce without loss of dignity. In France there was none of the community of interest which arises in a free social system. The nobility and clergy not only contributed nothing to the nation's stock of wealth, but were immune from nearly all taxation. The whole burden of an expensive court, an elaborate bureaucracy, and costly wars, was borne by the productive classes, the peasants on the farms, and the traders in the towns, who were often left with considerably less than half of what they had produced after taxes and dues had been paid. In this way, industry was checked and enterprise discouraged.

The same vicious system was at the root of the failure of the attempt to establish overseas colonies. In the first half of the seventeenth century, no fewer than twenty-two trading companies were formed in France to exploit the New World. But they suffered from lack of capital and the emigration of unsuitable classes of people. The French tried to carry their social distinctions with them, and found them entirely out of place in a new country. Only a few of their settlements survived (e.g. in Canada, the West Indies, Madagascar, and West Africa). There was also a valuable French property in the Newfoundland fisheries

which has continued to the present time. But there was not much enthusiasm for colonizing enterprises among either the French people or their rulers; the energies of the nation were absorbed in military adventures.

Influence of the Gilds.

Lastly, the gilds placed obstacles in the way of commercial progress. They fostered a spirit of monopoly, which excluded the possibility of free enterprise; they established a rigid routine of industrial methods which effectually barred all efforts to introduce improved processes and new materials. No gildsman was allowed to introduce any improvement which might prejudice the interests of his own or of any other gild. The "separation of trades" was upheld to such an extent that there could be no escape from a domestic system of industry as long as the gilds survived. While producers and consumers stood in direct relation in local markets, the gilds performed a useful function in securing a high standard of technical training and workmanship, and generally in holding up an ideal of business morality. But when there arose a need for increased production to satisfy a wider market in which producers and consumers were not in direct contact, then the system became a serious obstacle. The gilds having done their work had to give place to new forms of industrial society. In France the suppression of the gilds did not take place until the time of the French Revolution.

Internal and Export Trade.

The most important industry in France was silk manufacture. Henri IV introduced mulberry trees and silkworms, and Italian craftsmen who settled at

Tours and Lyons taught the art of silk weaving. Other industries included the manufacture of linen, glass, woollens, paper, and gloves. France had a surplus of agricultural products, and was able to export to neighbouring countries some corn and wine. The Hanseatic middlemen carried on an important trade in salt and fish. The largest external markets were Spain and the Spanish Netherlands, which purchased articles of luxury, and paid for them in gold and silver.

The Work of Colbert.

A temporary stimulus was given to French commerce by the efforts of Colbert, a minister of Louis XIV, who seized the opportunity presented by the military and diplomatic predominance of France to build up a strong mercantile system. Louis found his revenue inadequate to support his military commitments and his expensive court. Colbert therefore devised a comprehensive scheme of protection for native industry against foreign competition. His work had a negative as well as a positive aspect. Firstly, he removed many of the obstacles that were presented by internal custom barriers, so that France became approximately a single commercial unit. He abolished some of the more flagrant inequalities in the burden of taxation. By means of prohibitive duties, he checked the import of foreign manufactured goods into France, and put an end to the export of raw materials. On the positive side, he encouraged manufactures by grants of Government credit, by bounties and by rewards. He introduced skilled workmen from other countries and bought up trade secrets. He raised money for the improvement of communications: roads, bridges, canals, harbours. He concluded several commercial treaties with foreign powers and promoted private

trading companies (for example, the French East India Company).

Colbert carried the principle of State interference and protection perhaps too far. His system was excessively "paternal." He failed to encourage in French traders a spirit of initiative and independence, such as characterized English merchants. Manufacturers were compelled to conform to certain standards laid down by the Government. The width, length, qualities, and patterns of cloth were prescribed in a schedule of rules. Each piece had to bear the distinguishing marks of the weaver and the dyer. To assist with the supervision of workmanship, Colbert strengthened the guilds and thereby perpetuated many of the evils that were associated with them. His system had two particular weaknesses: in his endeavours to promote manufacture, the welfare of agriculture was neglected; cheap food supplies for the industrial population were held to be of paramount importance, and agricultural interests were subordinated to the demand for cheapness in the towns. The starving of agriculture involved a further weakness; for French colonization languished for lack of emigrants from rural areas, nurtured on the soil, and accustomed from childhood to the care of animals and the arts of cultivation.

The work of Colbert was largely nullified after his death by the preoccupation of Louis XIV with grandiose schemes of foreign conquest. He made the fundamental mistake of seeking expansion over the eastward land frontier instead of over the westward sea frontier. The expulsion of the Huguenots in 1685¹ gave a severe check to French industry, and the two

¹ Due to the repeal of the Edict of Nantes by which Henri IV had established religious toleration in France in 1598. The estimates of the number of Huguenots who emigrated vary between 250,000 and 500,000.

wars against England and Holland (1688–1714) began the financial ruin of France. Taxation became intolerably heavy, and trade and agriculture again declined. The country was saved from complete ruin by the acquisition of Flanders, Burgundy and Alsace, territories rich in industries, and yielding important minerals.

French Companies for Trade and Colonization.

The exertions of Colbert had raised France to the position of England's chief rival in the race for maritime supremacy and colonial dominion. The Dutch fell behind, and England and France joined issue in a contest which lasted, with intervals of uneasy rest, until Waterloo. Encouraged by Colbert, companies were formed for purposes of trade and colonization in five areas : (1) the West (from Hudson Bay to Florida—withstanding the existing English settlements in New England and Virginia) ; (2) the East Indies, where the English stations on the mainland and the Dutch on the islands were attacked ; (3) the North-east (i.e. the Baltic area) ; (4) the Levant, especially Turkey ; and (5) West Africa (Senegal). Over all these areas the Home Government kept up a rigid control. Emigration was permitted only under royal licence. No one, having once settled, could leave. Huguenots were excluded. All trade was in the hands of privileged corporations or private monopolists. " The cultivation of land was regulated by law ; a farmer sowed wheat or reared cattle under direction. In Louisiana, at one time, a man might not sell a cow without an order from Paris. Prices were settled from Quebec. Competition or free enterprise was unknown. Commerce with English colonies or with foreign countries was disallowed ; the King was expected to take all unsaleable produce off the hands of the colony.

Hence agriculture rapidly became careless and wasteful. Young men of spirit took to the woods as fur-hunters. Beaver skins, the staple product of the country, were, like tobacco in Virginia, the usual currency ; but they were the object of a monopoly. Taxation was light, and there was no prohibition of colonial manufacture, but the cost of the colony to the French Exchequer was enormous. Population, in spite of emigration laboriously encouraged, increased but slowly, and at the Peace of Ryswick hardly exceeded 25,000. The greater part were dependent, sunk in poverty, averse to useful exertion.”¹

French Finances in the Eighteenth Century.

French finances during the eighteenth century were generally in a bankrupt condition. The heavy drain which the ambitions of Louis XIV made on the resources of his country called for some financial reconstruction under his successor. A Scotsman (John Law) was appointed to advise the Government. He founded a Land Bank, which issued credit in the form of inconvertible paper money, the security being the land of France itself. At the same time an investment market was provided for this inflated wealth by the establishment of the Mississippi Company, to which the Government made grants of land for colonization in Louisiana.² An orgy of speculation followed. For a time the shares rose to an enormous premium—twenty times their nominal value. “It is inconceivable what immense wealth there is in France now. Everyone speaks in millions,” wrote Madame de Maintenon.

But it was soon discovered that plantations in Louisiana needed something more substantial than

¹ Woodward : *Expansion of the British Empire*, page 166.

² Louisiana was the name given to the whole of the vast interior of North America from the Appalachian Mountains to the Rockies.

paper credit if they were to yield a profit. The capital which the paper money represented was land, and this could not be utilized for purposes on the opposite side of the Atlantic. For the development of Louisiana capital in a more mobile form was requisite. "The system of Law appears to have involved a confusion between currency and capital."¹ Heavy depreciation followed an over-issue of the paper money, and this involved the bankruptcy of the State (1720), and much distress among unfortunate investors. The frequent wars (War of the Spanish Succession, 1742-48; Seven Years War, 1756-63; War of American Independence, in which France intervened from 1780-83) interrupted only by periods of uneasy peace, gave the country no chance of recovery. The whole burden of taxation was still borne by the peasantry and bourgeoisie. In 1789 bankruptcy was once again in sight, and it was the pressing necessity for a reform of State finance which led in that year to the summoning of the States General and the subsequent Revolution.

France attained her greatest success as a colonizer in the islands of the West Indies, where Martinique, Guadeloupe, San Domingo, and other islands developed quickly, the chief productions being sugar, coffee, rum, and molasses. In Canada they were less successful, although here the colonists were so compacted by religious and social unity and by centralization of administration, that in a military sense they had great advantages in the struggle against the New Englanders. But their economic policy was faulty. For, wishing to make immediate profit by the fur trade, agriculture and manufacturing industries were neglected, and emigration from France was positively discouraged. At the time of the outbreak of the Seven Years War,

¹ Cunningham: *Western Civilization (Modern Times)*, page 223 (note).

New England numbered a million inhabitants, New France only sixty thousand.

Foundations of British Commercial Supremacy.

Thus England outdistanced her rivals in the race for empire and commerce. Her success was due not to superior natural advantages or to special genius, but may be attributed rather to the freer political and economic system which enabled British enterprise to find scope, and placed fewer obstacles in the way of the immigration of foreign craftsmen and the investment of foreign capital. The stability of government, aided by the sound principles upon which the Bank of England was founded, inspired confidence in British credit, and London took the place of Amsterdam as the money market of the world. Great Britain, earlier than her rivals, shook off the trammels placed by antiquated gild regulations and a narrow protective system upon the free action of commerce and the free exercise of initiative. Her statesmen—Walpole, Chatham, and Pitt—even though they did not clearly see the end in view, all laboured towards an ideal of open commerce. Walpole's Excise Bill was designed to make London and other places free ports, so that imported wine and tobacco destined for re-export might be warehoused without the necessity for payment of duty. The younger Pitt, during the first ten years of his administration (1783-93), by simplifying the complicated schedule of duties and reducing their number, did much to save England from the evils of over-protection. By the encouragement thus given to commerce, Britain was enabled to survive the twenty-two years' struggle with France and Napoleon (1793-1815), to finance her allies, and to shoulder an enormous burden of debt without the collapse of her credit.

CHAPTER IX

THE OLD COMMERCIAL SYSTEM

THE colonial policy by which all the relations of the mother country with the "plantations" were guided for two hundred years or so, had its basis in certain economic principles, accepted in the seventeenth and eighteenth centuries as axiomatic.

Economic Self-sufficiency.

Firstly, statesmen held up the ideal of a self-sufficing empire. The plantations ought to be so developed that they would supply the mother country with as many as possible of those commodities which she would otherwise have to purchase from foreign countries; e.g. sugar, tobacco, indigo, cotton. For this reason every encouragement was given to the "silk industry in Carolina, Virginia, and Pennsylvania, the fisheries of Newfoundland, the coal mines of Cape Breton, the tobacco culture of Virginia and Maryland, the sugar, coffee, cocoa, and cotton plantations of the West Indies. The production of naval stores in Newfoundland and North Carolina was designed to dispense with the timber of Sweden and the tar, pitch, and turpentine of Norway, and to free England from having to pay the exorbitant export duties and extortionate prices of Sweden and Russia."¹ The object was to make England economically independent of any foreign state, to "keep trade within the Empire." The less England had to buy from trade rivals, the less danger there was of the "balance of trade" going against her, that is to say, the less risk there was of commodity

¹ Hertz: *The Old Colonial System*, pages 40-1.

imports exceeding commodity exports. For if that were unfortunately to happen, the deficiency in exports of commodities would have to be balanced by an outflow of bullion, a prospect viewed with great alarm by merchants and statesmen.

It is clear that the policy of self-sufficiency was devised in the interests of England rather than in those of her colonies. It happened frequently that the efforts to stimulate production in America for the sake of England's needs, failed to overcome natural disadvantages. The bounties on silk and wine produced in Georgia and Virginia never enabled the colonial products to compete successfully with those of Persia and Portugal, and much labour and capital were wasted in such attempts to force trade into artificial channels.

Restrictions on Colonial Enterprise.

The control of colonial industry took also the negative form of prohibition. No industry might be established which was likely to compete with home manufactures, and the colonists were not permitted to manufacture even for their own use goods which England could supply. Although they might trade in beaver skins they were not allowed to make beaver hats. They could export pig iron but not horse-shoes or nails. The manufacture of wool was suppressed, and the erection of furnaces for iron-smelting prohibited. Furthermore, in order to create cheapness and plenty in England, and to provide cargoes for British shipping, certain "enumerated" colonial products, e.g. tobacco, ginger, sugar, cotton, copper, beaver skins, might not be sent to any but English ports, whatever their final destination. No ships except those built in British shipyards, owned by British subjects, manned by a crew at least three-quarters of whom were of British birth, and under the command of a British captain,

were permitted to carry colonial produce to or from England. The Navigation Acts which imposed such restrictions as these contributed greatly to the maritime strength of England. But they were vexatious to the colonists. The New Englanders, for example, objected to having their capital locked up and freight charges swollen by the necessity of consigning goods to Cuba *via* London, an operation which involved a double crossing of the Atlantic. Similarly, it was a grievance that they were not permitted to buy Mediterranean products, such as olive oil and fruits, direct from the place of origin. The cost of transshipment, harbourage, and so forth, at English ports raised the price of such products to the colonists 25 per cent, and they complained that the price of beaver hats manufactured in England was threefold the cost of production in America.¹

Justification for Colonial Policy.

The justification of a policy which appears on the surface to be dictated only by selfish tyranny is to be sought in the nature of the origin of the colonies. They had been created by trading capital subscribed in England, and the view was universally accepted that they ought to yield to the promoters a dividend in some form or other. It was not denied that, when the rights of the pioneer companies reverted to the Crown on the expiration of their charters, the dividends ought to become the property of the nation as a whole. But the profits were then reaped, not directly in the shape of taxes, but indirectly in the advantage accruing from trade preferences. Moreover, the colonists relied on England for the military and naval protection which was absolutely indispensable to them. Without it they would have fallen into the hands of Holland

¹ Hertz : *The Old Colonial System*, page 58.

during the seventeenth century or into those of France during the eighteenth. It was held that the mother country had a moral right to some compensation for expenditure entailed in providing armed defence.

The colonists could not, and did not, at first contest the view that it was reasonable for the mother country to administer overseas possessions as estates to be developed for her profit. After all, this was the universal practice, and English colonial control differed from that of Portugal and Spain, Holland and France only in being more lenient.¹

The restrictions were less irksome in the early years of colonial development, because at first capital and labour were much better rewarded in the extractive industries than in the manufacturing. The production of raw material rather than the finishing of goods offered not only greater profits, but also a more congenial manner of life to the original settlers. They were able to indulge their English love of outdoor sport, while the heavy manual work in the hot plantations was done by imported slaves.

FOREIGN TRADE IN THE EIGHTEENTH CENTURY

Economic policy in England during the ascendancy of the Whig Party (1689-1776) was similar in its general features to that inaugurated in France by Colbert. In general, it was a policy of so regulating the channels of trade that home industries might prosper. Each country tried to rear its infant industries into manhood by sheltering them behind tariffs and feeding them with bounties. The immediate cost in higher taxation and higher prices was held to be justified by the ultimate benefit. Every department

¹ See Knowles : *Economic Development of the Overseas Empire*, page 10.

of trade was scrutinized, and approved or condemned according as it yielded a surplus of exports or of imports. In our relations with foreign countries political considerations were carefully weighed against commercial, and in the latter the crucial factor was always the tilting of the balance of trade. Exportation was regarded as the only certainly profitable and advantageous trade; importation was discouraged as tending to the loss of bullion.

The chief competition which the Whigs dreaded was that of France; it was feared that the French, producing goods fully manufactured and in universal use, would require none of ours in return. There was a similar misgiving on the other side of the Channel in regard to English goods, and in consequence high tariff walls were erected on both sides which effectually prevented the growth of legitimate trade between the two countries. An Act of Parliament of 1678 prohibited certain kinds of trade with France altogether. The official figures of imports and exports show but little increase during the first half of the eighteenth century, but there is no doubt that smuggling attained enormous proportions, and probably the large movement of goods to and from Holland and Flanders was due partly to the efforts of merchants to find a back-door entrance to prohibited markets.

The two most important treaties governing our foreign commerce at that time were the Methuen Treaty concluded in 1703 with Portugal, and the Treaty of Utrecht of 1713. These provide the key to much of the commercial history of the eighteenth century and must be considered fully.

The Methuen Treaty.

Portugal, like Spain, possessed excellent flocks of merino sheep, and the growth of a well-populated

market in Brazil suggested the possibility of establishing a native woollen industry. Cloth workers were, therefore, introduced from Catholic Ireland in 1681, and within three years the Portuguese market was closed to English cloth. Now the Portuguese trade had hitherto been looked upon in this country as providing a more favourable balance than any other, since Portugal needed English manufactured goods and had little but bullion to send us in return. The French trade, on the contrary, was unfavourable, because we had been forced to pay for French wines in money and not in goods. But on the outbreak of war with France towards the end of the seventeenth century, the importation of French wines had been checked. The conditions were, therefore, favourable for a bargain between England and Portugal, and Mr. Methuen, in 1703, negotiated a treaty whereby Portugal reopened her markets to English cloth manufacturers, while England undertook to admit Portuguese wines at a tariff one-third lower than that which might at any future time be imposed on French or German wines. The treaty lasted eighty years. Port¹ displaced burgundy on the tables of the English aristocracy. But the value of the woollens exported from England was greatly in excess of the value of wines imported; and the balance was paid in gold which Portugal derived from Brazil,² partly, at least, by the re-export of English cloth. The arrangement was, therefore, regarded in England as a masterpiece of commercial policy. It has been well said that England gave nothing which was not for her advantage, and yet received a premium for what she gave.³

¹ Shipped from Oporto.

² It is said that the inflow of bullion into England averaged £50,000 a week.

³ Herbert Paul: *Queen Anne*, page 29.

The inflow of bullion had important indirect results. It enabled the Government to restore the currency, and to finance the allies in the great Continental struggle with France. It provided in a convenient form the capital which was required for the extension of commercial intercourse with India and the Far East. The chief requirements of the East consisted of the precious metals. England, though not without reluctance, could now furnish these in abundance. With Portuguese silver and gold, English East Indian merchants were able to purchase cotton and silk, not, of course, for import into England, for that would have been a suicidal policy. On the contrary, the import of Indian cotton and silk for sale in England was absolutely prohibited. The produce of the Eastern looms was, therefore, re-exported to European countries. In exchange, the English brought home from the Continent agricultural produce, raw materials, or precious metal once again. Supporters of the Methuen Treaty claimed that it laid the foundation of our Indian Empire, dispossessed the Dutch from their most important trading stations in the East,¹ reduced Brazil almost to the position of a British dependency, lowered the rate of exchange to the extent of 15 per cent to the disadvantage of Portugal, and gave abundant employment to British shipping on the routes to India, the Mediterranean and the Baltic, as well as in nearer waters.

Adam Smith and the Methuen Treaty.

Adam Smith, in 1776,² pointed out that there was another aspect of the matter which gave less ground for satisfaction. The gain, he said, was balanced by real loss. He argued that the Methuen Treaty, by

¹ List : *National System of Political Economy*, tr. Lloyd, page 34.

² *Wealth of Nations*, Book IV, Chapter VI.

intensifying and prolonging the hostility of France, involved England in enormous military expenditure during the eighteenth century. The strangling of Portuguese industries in due course produced reaction. The treaty favoured some kinds of trade at the expense of others, and in any event, England did not manufacture more cloth than she would have done had the treaty never been signed. For Portugal, while enjoying the preferential treatment which England gave to her wines, accorded no such preferential treatment to English cloths; these had to compete with French, German, Dutch, and Belgian woollens on equal terms.

The Treaty of Utrecht.

The second important international arrangements concerning commerce were comprised in the Treaty of Utrecht, which closed the War of the Spanish Succession in 1713. In this treaty political as well as commercial considerations played a part, and it is not easy to say which were paramount. Certainly the question of the succession to the Spanish throne touched English commerce closely, because if France had been allowed to establish her influence in Spain, she would have taken over at the same time the monopoly of trade in the New World, and shut England irrevocably out of it.¹ The Whigs were keenly alive to this danger, and were therefore supporters of the war. The Tories held political considerations to be the stronger, and defeated the effort which the Whig minister, Bolingbroke, made to put trade with France on a more liberal basis. He suggested that France should abolish high tariffs and prohibitions, and revert to the low tariffs of half a century before, in return for "most-favoured-nation" treatment from England. But it was feared by English cloth merchants and

¹ Seeley: *Expansion of England*, page 110.

manufacturers that such an arrangement would not only expose them to the risk of French competition, but might also offend Portugal and neutralize the advantages of the Methuen Treaty. Bolingbroke's attempt to establish free trade proved to be premature. He was overruled by the Tories, who negotiated the military peace and continued the tariff war.

But the *Assiento* clause agreed upon between England and Spain was an important gain for the former. She was given exclusive permission to introduce each year a certain number of African slaves into the Spanish colonies of Central and South America, and to send one ship a year to the harbour of Portobello. This permission involved the virtual abandonment by Spain of an important principle, the validity of which had not for one moment been acknowledged in England, namely, that the Western Atlantic was a *Mare Clausum*.¹ It was a thin wedge which was driven into the Spanish monopoly of trade in the New World, but it was sufficient in time to shatter it. The limitation of trade involved a constant patrol and the exercise of a right of search by the Spanish. This proved to be a source of great irritation to English captains, whose pride was offended by the necessity for submission. The tales they told of overbearing and cruel conduct on the part of the Spanish inflamed public opinion in England to such a heat that Walpole could no longer hold back the nation from war. The "War of Jenkins' Ear" broke out in 1739, and though it soon became merged in European conflicts having deeper causes, it was never forgotten that the main interest of England in these wars was the protection and extension of her commerce. Trade led

¹ A *Mare Clausum* signifies an area of open sea over which one State asserts exclusive dominion. Territorial waters to-day in international law extend only three miles from land. Beyond that limit there is no sovereignty.

naturally to war, and war fostered trade. In fact, under the old commercial system, trade was itself a species of war.

Bounties and Subsidies.

The attempt to divert commerce into channels which were considered to be favourable led to a number of artificial devices to promote certain kinds of trade, and to suppress others. The encouragements commonly took the form of bounties or subsidies. In 1689 the Corn Bounty Act was passed. "The result of this measure was very remarkable," says Cunningham. "From this time onward corn was treated as a commodity to be grown for export. . . . The result which followed was twofold ; first, the landed interest was so far relieved from loss by low prices, in the case of a plentiful harvest, that there was a distinct inducement to invest capital in the land ; and secondly, by encouraging such extensive production of corn there was some security that the food supply of the people would not be deficient."¹ A further result was that the export of corn gave increased employment to shipping.²

The policy was in accord with the prevailing maxims of the mercantilists inasmuch as it stimulated exportation. It aimed at power, because the policy was calculated to strengthen national resistance in time of war. It sought to encourage plenty by extending the area of cultivation and to promote employment in an industry of fundamental importance.

Every other branch of trade was considered from similar points of view. Did it conduce to an excess

¹ Cunningham : *Growth of English Commerce and Industry in Modern Times*, page 541.

² *Ibid.* (note). For a contrary view see Horrocks : *Short History of Mercantilism*, and Gras : *Evolution of the Corn Market*.

of imports or of exports? Did it promote or diminish home employment? Did it lead to cheapness and plenty, or to dearness and scarcity? Did it furnish the nation with the sinews of war, or add to the military strength of a potential enemy? Did it on balance augment or diminish the nation's stock of the precious metals?

Favourable and Unfavourable Trades.

The trades which were regarded in the eighteenth century with unalloyed satisfaction were those with Portugal, Spain, Italy, Turkey, Germany, and Holland, and particularly those with the West Indies, the southern colonies of North America, and Africa.¹ Trades which were generally condemned as opposed to national interest were those with the Baltic countries (Norway, Sweden, Russia), France and, to a certain extent, India. The former group left favourable balances, the latter unfavourable. The former gave employment to the industries which were most cherished in England, the "key" industries, and those which led to the increased use of British shipping. The latter stimulated competition with home industries, deprived the nation of vital raw materials or foodstuffs, and contributed little to the employment of shipping. It is important to notice that the mercantilists set great store by our entrepôt trade. Walpole's Excise Bill was designed to encourage this, but his plan was foiled by a party manoeuvre. The business of bonding goods, intended for re-export, was encouraged on the ground that it deprived the nation of nothing, while the profits of resale and shipping were received in the form of bullion.

¹ For much of the remainder of the chapter the writer is indebted to an article in *Economica* (June, 1925), by Professor J. F. Rees: "British Commercial Policy in the Eighteenth Century."

African Trade.

According to an eighteenth century writer : " The trade to Africa is the first principle and foundation of all the rest, the mainspring of the machine which sets every wheel in motion. . . . The African trade is so very beneficial to Great Britain, so essentially necessary to the very being of her colonies, that without it neither could we flourish nor they long subsist." The fact is that the value of exports to Africa exceeded that of the imports ten or twelvefold. Not only so, but these imports included gold dust. The remaining imports, namely, elephants' tusks, beeswax, and raw goat skins, were not such as to endanger any home industry. On the other hand, the exports to Africa included many of our staple manufactured goods : iron, linens, woollens, spirits ; we derived additional profit from the re-export of Indian cotton piece goods to Africa.

But the African colonies obviously could not pay for such valuable British goods with the trivial wares of a few native collectors. The bulk of the payment actually took the form of negro slaves sent to the plantations of sub-tropical America in return for raw material which these furnished to England. Thus the African trade was part of a three-cornered exchange, whereby Africa imported manufactures, America slaves, and England raw materials ; while England exported manufactures, Africa slaves, and America raw materials. English ships carried all the goods. By supplying the American colonies with abundant negro labour, England hoped to keep them to their task of producing raw material. Her capacity to take all that the colonies provided was well-nigh unlimited, and the planters, in fact, found that it paid them better, especially in the South, to confine their energies to producing raw cotton, tobacco, sugar, and other plantation products for the English market.

Baltic Trade.

As an example of an unfavourable system of commercial exchange in the eighteenth century, we may consider the trade carried on with the lands on the Baltic shores. The most important articles of Baltic trade were pitch, tar, hemp, timber, and iron, called in general "naval stores," because of their usefulness in all that concerned the building, repair, and equipment of ships. It was felt that our dependence on the Baltic lands for such necessary goods was dangerous. Politically, the Baltic was a storm centre, and peace rested on so insecure a basis that our supplies of naval stores might at any moment be cut off. It was argued that the production of these goods by our own colonies would not only add to the security of the nation in time of war, but would also enable them to absorb English manufactured goods in greater quantity, and engage still more exclusively in the production of raw materials those energies which they might otherwise have been tempted to employ in manufacture. In order to divert the channels of trade, bounties were offered for pitch and tar produced in the colonies. Similar efforts were made to encourage the importation of bar iron from America. Colonial iron would be paid for normally with English woollens, whereas Baltic iron was paid for in gold. These efforts do not appear to have had much success in strangling the Baltic trade, which was still at the end of the century far greater than the colonial.

East Indian Trade.

As far as English manufactures were concerned, the East was a disappointing market. The Indian peoples had the advantage of a tradition of skill in textile manufactures which was centuries old. Labour in the East was cheap and abundant. The raw materials

were nearer to hand. The demand for warm English woollens in the hot climates was small compared with the demand for calicoes, muslins, and silks of native manufacture. Indeed, the value of Indian imports of English woollens was greatly exceeded by the Indian exports of textiles, which, as we have already seen, were refused admission into home markets, and were re-exported to Europe or Africa. Moreover, while we had so little that the East needed, except silver and gold for ornament and currency, there was one novel article of export to England which tilted the balance of Eastern trade increasingly against us. The East India Company introduced tea into England from China early in the century. In 1800 the consumption was already over twenty million pounds.¹

West Indian Trade.

The West Indian trade was particularly cherished by mercantilists of the eighteenth century. The islands afforded excellent markets for English goods, and their products did not and were not likely to compete with those of home manufacture. The expanding demand for West Indian sugar in Europe produced a corresponding demand for more negro labour in the fields, and this reacted favourably on the slave trade, and so on the demand for English manufactures in Africa. The West Indian trade in 1790 found employment for about seventy million pounds of capital, while the East Indian required only eighteen million pounds; West Indian shipping totalled 150,000 tons as compared with 80,000 tons engaged in Eastern trade. There was a lucrative commerce with Central America, much of it illicit,

¹ Tea cultivation was introduced into India in 1835, and it became an important article of export in 1856.

but West Indian planters thereby obtained silver which they used in payment for European goods.

The Slave Trade.

Next to spices and colonial products, such as sugar and tobacco, the most profitable commodity of commerce was the slave. The demand for slaves in tropical and sub-tropical America was the prime dynamic which kept in motion an endless chain of commercial transactions. The slaves were purchased in Gambia, Gold Coast or Sierra Leone, with English cloth, or cotton piece goods brought from India. The traders exchanged the slaves in Spanish America for silver, wherewith Indian cotton goods were purchased for resale. In the colonies of the West Indian Archipelago or the plantation states of North America, the slaves were exchanged for tobacco and sugar.

In the Northern colonies slave labour was not so necessary. The contour of the land was less open and the climate more suitable for white labour. The average size of the farms was smaller and "plantation" methods were out of place. Nevertheless, even the New Englanders found it profitable to take a hand in the slave traffic, purchasing slaves for rum, which they obtained from the West Indies in exchange for corn, and reselling them to Spanish America for silver, wherewith they bought English manufactured goods. Thus once again England, as a result of a series of exchanges on the opposite side of the Atlantic, found an outlet for her manufactures, and obtained the silver which was so necessary for the purchase of Indian cotton goods, which were in turn exchanged for the condiments of the Spice Archipelago, or for slaves in West Africa.¹

¹ See Knowles: *Economic Development of the Overseas Empire*, pages 72-3.

The slave trade was regarded as the most important factor in British mercantile development. The transport of African negroes across the Atlantic gave constant employment to a large amount of shipping, and the profits were a considerable item in the trade balance of the United Kingdom. During the eighteenth century Liverpool took the place of Bristol as the home centre of the trade. "In the eleven years from 1783 to 1793 Liverpool slaving ships carried over 300,000 slaves from Africa to the West Indies, and sold them for over £15,000,000. In 1793 this single port had secured three-sevenths of the slave trade of Europe."¹

SHIPPING

The encouragement of shipping was an essential element in mercantile policy. We have already seen how in the seventeenth and eighteenth centuries, an attempt was made to break down the monopoly of the Baltic lands, in regard to the supply of naval stores, by the offer of bounties on colonial pitch, tar, hemp, and masts. The fishing industry was regarded as the chief training ground for navigators, and bounties were given to enable English companies to compete with the Dutch in the herring and whale fisheries. Further subsidies were granted for the building of large ships. Lighthouses were built, harbours were improved, and coastal surveys undertaken.

That English shipping developed very considerably during the century following the Navigation Act of 1651 there can be no doubt, but it is not clear that the development owed all or anything directly to the policy of the Act. Dutch shipping did not diminish during the half-century following the Act, and the growth in English shipping may be sufficiently explained by reference to the expansion of trade as the

¹ J. L. and B. Hammond; *Rise of Modern Industry*, page 203.

colonies prospered. Similarly, the later decline of Dutch commerce reflects the loss of trade consequent on the loss of her colonies.¹

Notwithstanding the restrictions, the preponderance of British shipping was, at the beginning of the nineteenth century, much less marked than in later years when the Navigation Code was giving place to a freer system. In 1801, for every 100 tons of British shipping entering home ports, there were 84 tons foreign. In 1810, for 100 tons British, there were 131 tons foreign. But from about this time the ascendancy of British shipping became more marked. The proportions at ten-year intervals were—

1820	.	.	100 tons British—28 tons foreign
1830	.	.	100 „ „ —35 „ „
1840	.	.	100 „ „ —45 „ „

As the other nations developed shipping, the enormous preponderance which the Napoleonic wars left as a heritage to Great Britain gradually diminished.²

In the year 1814 an analysis of British shipping engaged in commerce with the principal geographical areas of the world gave the following approximate result—

PROPORTION OF TONNAGE ENGAGED IN TRADE WITH—

Foreign European Countries	.	.	.	64 per cent
British Colonies in West Indies and America	.	.	.	20 „
British Dominions in Europe	.	.	.	5 „
Foreign Colonies in West Indies and America	.	.	.	4 „
Cape of Good Hope and India	.	.	.	3 „
Greenland and Southern Fisheries	.	.	.	2½ „

The proportions are affected slightly by the almost total cessation of trade with the United States, which

¹ Horrocks : *Short History of Mercantilism*, page 69.

² The proportion of foreign to British shipping entering home ports in 1860 was 59 per cent ; in 1870, 66 per cent ; and in 1890, 72 per cent.

gave employment in 1802 to 6 per cent of the total tonnage.

CHANGES IN THE DIRECTION OF TRADE DURING THE EIGHTEENTH CENTURY

Arnold Toynbee sums up the changes in the direction of our foreign commerce as follows : " In 1700 Holland was our chief market, taking more than one-third of all our exports, but in 1760 the proportion was reduced to about one-seventh. Portugal, which in 1703 took one-seventh, now took only about one-twelfth. The trade with France was quite insignificant. On the other hand, the colonies were now our chief markets, and a third of our exports went there. In 1770 America took three-fourths of all the manufactures of Manchester. In 1767 the exports to Jamaica were nearly as great as they had been to all the English plantations together in 1704."¹ In 1785 the imports from the East and West Indies made up about 50 per cent of the total imports into Great Britain. But the proportion was tending to diminish, because the capacity of these colonies to absorb our manufactures was almost exhausted, and there was great need to develop a European market for British goods.

The trade in spices was gradually diminishing as sugar entered into general consumption. Until the late years of the century wheat and other food staples were of little importance as articles of world trade. But as the industrial populations grew there were already signs by 1800 of the beginning of an immense development of the grain trade. Cotton exports were at the same time rapidly gaining on woollen exports, though the latter in 1800 were still more than twice as great in bulk.

¹ Toynbee : *Industrial Revolution*, pages 56-7.

The substitution of cotton for wool had important reactions on foreign trade. Until 1850 the woollen industry depended in the main on raw materials produced at home, and the market for the finished product also was a local one. The cotton industry, on the other hand, derived its raw material from distant tropical or sub-tropical lands, and the bulk of the manufactured products was consumed by the inhabitants of warmer climates. The growth of the cotton industry, therefore, contributed to the development of overseas trade, and gave fresh employment to the shipping which had been rendered idle by the cessation of the slave traffic. Ultimately the woollen industry also became dependent on supplies of raw material from distant regions. Australian wool began to be important in the 'thirties, and this abundant new source of supply enabled the woollen industry at last to obtain full benefit from the mechanical inventions. The local supply of wool is now but a small fraction of the total requirements of the industry, and consequently both raw and manufactured wool now enter largely into foreign commerce.

CHAPTER X

MACHINERY, POWER, AND TRANSPORT

THE era of colonial expansion synchronizes with a period of considerable development of manufacturing industry in England. A great stimulus was given to our industries in 1685 by the immigration of 50,000 Huguenot refugees from France. These included many of her cleverest craftsmen. They brought with them the knowledge of many refinements in textile manufacture, especially silk and linen, and introduced also the processes of paper-making and glass-blowing. The woollen industry was organized on the domestic system; that is to say, the crafts of spinning and weaving were carried on in the homes of the people, with the aid of members of the family, and possibly one or more apprentices who lived under the same roof. The yarn or cloth was collected by itinerant dealers and sold at the nearest market town. The chief centres of the woollen industry in 1700 were the West Riding of Yorkshire, the West of England, East Anglia, and the valley of the Tweed. There was no manufacture of pure cotton fabrics, because no device was known for spinning cotton-thread strong enough to be used as warp. In the interests of English wool weavers there were many restrictions upon the import, manufacture, and use of cottons and calicoes.¹ Until the second quarter of the eighteenth century, no mechanical power was used in woollen manufacture, the spinning jenny and the loom being worked by hand, as had been done for centuries.

Iron Smelting.

Next to the manufacture of textiles the most

¹ For example, shrouds for the dead had to be made of wool.

important industry was iron-smelting. This was carried on in the regions where timber was available as fuel for charcoal ovens. The chief centre of manufacture was the Sussex weald. Unfortunately, so much timber was used that some of our finest forests were destroyed. Parliament tried to check deforestation by insisting on new planting, and limiting the number of furnaces, but without much success. As fuel became scarce, the cost of iron rose, and in the early part of the eighteenth century the industry was declining. When the use of coal for smelting was discovered, the industry transplanted itself from the forested districts to the regions of carboniferous limestone, and took new and stronger root.

Mechanical Inventions in England.

About the middle of the eighteenth century, changes took place in the methods of manufacture which, within a few years, had such violent reactions upon industrial and commercial life as to warrant the use of the term "revolutionary" in speaking of them. The changes are often referred to as "the coming of machinery." But it must be remembered that machines, or devices for saving human labour, have existed from the earliest times of which we have knowledge. The primitive spinning-wheel was a machine as truly as the most modern electric spindle. The difference is simply one of degree. The inventions of Kay, Hargreaves, Arkwright, Crompton, Cartwright, and others between 1738 and 1785 enabled one man to do the work of hundreds. One wheel being set in motion, a large number of spindles connected with a frame was made to rotate, and an equal number of threads spun at the same time. By diverting a stream of water so that it drove a water-wheel, the worker's hands were set free to twist up broken threads, and to

keep the machine in more constant motion. When by such means the fibre was spun so quickly that the spinners stood in idleness while the weavers used up the yarn, the same ingenuity was expended on the improvement of the process of weaving, and the result was the invention of the power-loom.

The new machines not only did the work more quickly, but they also did it better. Arkwright's water-twist yarn was far finer and stronger than that produced by Hargreaves' spinning-jenny, just as this was superior to the earlier handspun yarn. This finer yarn gave rise to the manufacture of muslin and other lightly-woven textiles. At the same time, its greater strength made possible the weaving of pure cotton fabrics in place of the mixture of cotton wool and linen warp which had previously been necessary. Before the end of the century the machines were adapted for lace-making and the manufacture of woollen and linen cloths. Calico printing was at the same time speeded up by the invention of rotating cylinders, and chemical bleaching processes were introduced.

Steam, Coal, and Iron.

The next step was to discover the use of some natural force which could be more easily harnessed to the service of man than either the fitful motion of air or the uncertain flow of water. Such a force was found by Newcomen and James Watt to be released when liquid water was converted into vapour. They first used the force of expansion ("steam") to pump water from a mine. Later, in 1785, steam was applied to spinning and weaving. But this new form of power could be employed only where fuel was obtainable in large quantities. The use of coal in place of wood for smelting iron had been known since 1735, and it was now found to be convenient for use in the steam engine.

The coal that was used as fuel could be employed also in the production of the iron and steel of which the machinery was made. An important iron manufacture consequently sprang up beside the textile industry, ministering to it. A charcoal furnace in the Sussex weald yielded perhaps 300 tons a year, compared with an output of five times as much from a coke furnace in Lancashire. This meant an enormous cheapening of iron and the possibility of using it for a thousand purposes not previously thought of. The first iron bridge was constructed in 1779, and the first iron ship in 1790.

Since it was cheaper to transport the raw materials of industry to the source of fuel rather than the fuel to the source of raw materials, the textile industries began now to shift their ground. Cottage spinning and weaving were no longer profitable, and hand implements went out of use. The flat eastern counties, hitherto the home of the weaving industry, had neither rapidly-flowing water nor coal, and here, too, there was relative decline. The mills which used water-power continued for a time to exist on the hill slopes but the greatest development took place on the lower coalfields, notably in Lancashire, Yorkshire, Nottinghamshire, and Staffordshire. Here scores of towns experienced a mushroom growth.

Roads and Communications.

These industrial developments produced an unwonted restlessness in rural England, and thousands broke loose from their social moorings. The exodus from the country into the towns began. Arthur Young, writing in 1769, refers to the marked growth of the urban as compared with the rural population. During this unprecedented stirring, attention was drawn to the backward state of road and water communications in England, and immediately the men were forthcoming

to improve them. Telford and Macadam, the road engineers, and blind Brindley, the constructor of canals, wrought a revolution in transport not less complete than that which had taken place in the iron and textile industries. Improved transport contributed to the concentration of industry in the great manufacturing centres. For men and materials now moved more freely towards the places where labour and capital combined most effectually to produce wealth. Without better roads and transport facilities the large populations of the manufacturing towns could not have existed, for, as streets and factories encroached on the farms, the food-producing zone was pushed farther and farther back.

Shifting of Population.

In 1700 the only two towns, except London, which had more than 10,000 inhabitants, were Norwich (29,000) and Bristol (28,000). Norwich was then the foremost manufacturing town; Bristol merchants drove a thriving trade with the West Indies and the North American settlements. "The most populous counties (excluding the Metropolitan counties of Middlesex and Surrey) were Gloucestershire, Somerset, and Wilts, the manufacturing districts of the West; Worcestershire and Northamptonshire, the seats of the Midland manufactures; and the agricultural counties of Herts and Bucks—all of them being south of the Trent."¹ Sixty years later, Bristol was still the second largest with 100,000, and the new commercial towns, Manchester and Liverpool, were already almost as large as Norwich; Birmingham, Sheffield, Leeds, and Hull were also rapidly growing. Relatively, the population of the older cities of the South remained almost stationary.

¹ Toynbee: *Industrial Revolution*, page 34.

The Factory System.

The characteristic industrial unit which these changes produced was the factory, as distinguished from the domestic workshop. First, the craftsmen worked up in their own homes material provided for them by capitalist undertakers, who afterwards marketed the product. The craftsman owned his own tools and instruments of production. Later, the capitalist loaned the instruments of production as well. Finally, he gathered the workers under one roof and not only provided the machinery and the materials, but himself supervised the manufacturing process. One must be on one's guard against supposing that factory organization was a new and sudden development of the eighteenth century. Factories, indeed, were in existence long before that time. We read of "clothiers" in the West of England who "kept a great number of servants at worke, spinners, carders, weavers, fullers, dyers, sheeremen and rowers," sometimes to the number of a thousand or more. But in the course of the century the factory became predominant as the unit of production. These changes did not proceed uniformly over the whole of the industrial system. In some industries and districts they took place more rapidly than in others, and at the end of the eighteenth century, as in our own day, every stage from the primitive domestic type to the modern factory existed side by side in every town.

Agriculture.

Despite many improvements in the technique of agriculture during the second half of the eighteenth century, British farmers failed to keep pace with the demands of the growing town population. Agriculture was still hampered by the old-fashioned methods of open-field cultivation, the unvarying rotation of a very

few crops, the shortage of winter fodder for stock, the scarcity of animal manure and the consequent necessity for frequent fallow, the promiscuous herding of good and inferior breeds of cattle, the use of antiquated farm implements, the bad condition of the roads, and the persistence of old traditions now completely out of touch with the needs of the time. There was not much improvement until, in the later eighteenth century, the enclosure movement gave rise to the beginning of capitalist farming under stress of the increasing demands of the rapidly-growing population.

Capitalist Farming.

Much of the wealth acquired by overseas commerce, and by the new manufactures, was invested in landed estate. The possession of land gave to the owner social prestige and political privilege which attached to no other form of property. The creation of compact estates could be effected only by purchase or mutual exchange of scattered plots in the open fields, or by the fencing in of common lands, under the authority of special Acts of Parliament. Where enclosure took place, the antiquated methods of agriculture practised in the open fields gave way to scientific farming. It became profitable to select and propagate better breeds of cattle. By the introduction of root crops the necessity of frequent fallow was obviated, and an abundance of winter fodder enabled farmers to feed their stock cattle and to manure their fields more richly. The new owners possessed capital sufficient to equip the farms with machinery, to lay down drains, to plant hedges, and to improve the roads. The productivity of the land was thus vastly increased, and the farmers who supplied the expanding town markets enjoyed a period of great prosperity. Nevertheless the increase was not equal to the need, and England

passed finally into the condition of a food-importing country.

Decay of the Yeomanry.

But there was another side to the matter. The average yeoman had won an independent, though penurious, livelihood by the labour of himself and his family in the cultivation of his copyhold land in the open fields and in domestic industry. But he had no capital to purchase new equipment and better stock, even though, by the process of mutual exchange of acre or half-acre strips, he might have found himself in possession of a large enclosed area. Economic pressure usually compelled him to sell out to a wealthy neighbour. Sometimes he continued to live and work on the same fields as a wage labourer; more often the loss of the earnings of the family in domestic manufacture compelled him to migrate to the towns, and to swell the supply of labour for the factories. The agrarian revolution and the industrial revolution are thus seen to be different aspects of the same great change, and both are closely identified with the revolution in transport. In conjunction, they brought within sight the social and political revolution of the nineteenth century.

THE DEVELOPMENT OF MEANS OF COMMUNICATION AND TRANSPORT

Every abridgment of distance, due to the removal of obstacles to safe and easy intercourse, or to the invention of improved means of transportation or communication, has been of advantage to commerce. Before the forest trails were blazed and the oceans charted, free intercourse was checked by the danger threatened to life and property by marauders, by the

mutual hostility of alien peoples, by ignorance of the art of navigating the high seas, by the primitive character of artificial means of locomotion, and by mistaken notions regarding the true foundations and objects of commerce. Whenever by the rise of strong government order and security were for a time established, or by some advance in the art of seamanship or locomotion the hardier spirits were enabled to adventure farther, commerce for a time flourished. But the history of transport in the early world is not the story of an uninterrupted evolution. There were many periods of retrogression, produced by conditions which enabled the obstacles to grow formidable again. In the modern world the advance of commerce has had much more of the character of a steady growth. There is no factor which has contributed more to commercial progress than the development of the means of transport and communication with the aid of science and invention. This is, in fact, of fundamental importance, since all commerce involves the transfer of goods from one place to another.

Navigation and Shipbuilding.

Until the eighteenth century, the only important advances were made in the art of navigation. During the thirteenth century the compass came into general use, and made possible more extended voyages. But since galleys were propelled mainly by rowers, as in the Mediterranean, the costs of transportation were heavy. It was necessary to keep within easy reach of the shore, because the hull lay so low in the water (for the greater ease of rowing), that there was danger from rough seas; moreover, the space available for storage was narrowly limited. In the North, sails were more often used, and a considerable development of the sailing ship took place in the sixteenth century.

The use of wind propulsion economized human labour to an enormous extent. It enabled larger ships to be manned with smaller crews, since hands were set free for the manipulation of sails. The bulwarks could now be built higher out of the water. Not only did they afford surer protection, but they also provided greater space for cargo and supplies. The ship thus became altogether more self-reliant and self-sufficient, able to remain on the high seas for months at a time, and more capable of withstanding rough seas.

There was little further improvement, except in regard to size, until the early nineteenth century, when steam was applied to navigation. In 1807 wooden steamships plied on the Hudson River. Thirteen years later a steam packet service was established between Dublin and Holyhead. In 1819 the *Savannah*, partly steaming, partly sailing, crossed the Atlantic in twenty-nine days; shortly after the steamship *Enterprise* made a voyage to Calcutta. In 1838 an iron ship, the *Great Western*, completed the voyage to America in fifteen days.

Iron Ships.

The coming of the iron ship restored to Great Britain the supremacy she was in grave danger of losing. For American shipbuilders had evolved a new type of sailing-ship, the "Clipper," which was vastly superior in speed and capacity to any other type. There was an abundance of excellent timber at the water's edge, while the indented coast-line afforded many quiet creeks where shipbuilding could be carried on. A combination of circumstances produced a shipbuilding boom in the United States in the 'forties and 'fifties, and American tonnage increased nearly up to the level of that of Great Britain. But with the passing of the wooden ship, the bright promise

for the future of the American shipbuilding industry became clouded.

America was not yet equipped to compete with Great Britain in industries calling for the use of coal and iron. The latter had the start of a generation or two in the manufacture of iron by means of the coal blast. The processes were carefully guarded. The export of machinery was prohibited under heavy penalties. In consequence, manufacturing industry in the United States was for a long time backward, and the iron industry in particular did not develop until the 'sixties. The building of wooden ships still continued in America, while Great Britain was bending all her energies to producing iron ships. These were capable of being built much larger, since their length was no longer limited to the maximum height of trees. They lasted longer and the risk of loss by fire was much less. Subsidized by Parliament, the Cunard line of paddle steamers was founded in 1838. Shortly after, the screw steamship was devised. The Bessemer process of steel manufacture, patented in 1855 and improved by the Siemens-Martin process of 1870, caused the iron ship in its turn to be displaced by the steel ship, which was much less costly yet much stronger.

Between 1855 and 1860, American shipbuilding suffered a sharp decline, and there was, until 1910, a steady fall in the tonnage of U.S.A. vessels engaged in foreign trade. In Great Britain there was an equally steady growth. In 1880, 60 per cent of the new shipping was built in the yards of Great Britain.

The size of ships has continued to increase. In 1853 there were 25,224 sailing ships and 1,385 steamships registered in the United Kingdom. The former averaged 150 tons and the latter 107 tons. In 1913 there were 8,336 sailing ships and 12,602 steamships,

the former averaging about 100 tons and the latter nearly 1,000 tons. While the total number of vessels diminished in this period by 5,000, the total tonnage increased by 8,000,000 tons. The most recent advances in ship construction have been the introduction of the internal combustion engine, and the adaptation of the furnaces to the use of oil fuel instead of coal.

Growth of the British Mercantile Marine.

We have seen that the Navigation Act, passed by Cromwell in 1651, was but one of a long series which aimed at promoting English shipping at the expense of our rivals in the carrying trade, particularly the Dutch. The Act was an assertion by England of "her practical right to carry on her own overseas trade in her own ships, and to obtain as much foreign trade as she could by her own industry and energy."¹ This right was successfully maintained in the contest with Holland, and the result was seen in the growth of English ports, especially in the West. At the beginning of the struggle with Holland the average outward clearances from our ports totalled nearly 150,000 tons. By the years 1726-8 the tonnage had increased three-fold. In 1764 it was estimated that the clearances amounted to close on three-quarters of a million tons. Over the same period of about a century, the value of cargoes exported grew from £2,000,000 to £16,000,000 annually.

The growth of the British mercantile marine during the eighteenth century was due mainly to the great expansion of industry, and to the development of the colonial empire. The necessity for food imports, paid for by the export of manufactured goods to the colonies, gave abundant employment for ships on

¹ Lindsay : *History of Merchant Shipping*, II, page 183.

extended voyages. The blockade of Continental ports, and the suppression of the external trade of the United States during the Napoleonic wars, left Great Britain for a time with a virtual monopoly.

The expansion of British shipping in the nineteenth century may be regarded as part cause and part effect of the change in shipping policy, which led eventually (1854) to the complete abandonment of restrictions.

The maximum preponderance of British shipping was reached about 1890. At that time nearly three-quarters of the tonnage entered and cleared in the foreign trade of the United Kingdom was British. In 1892-4 over 80 per cent of the total output of the world's shipping came from British shipyards. Ten years later 56 per cent of all existing steam tonnage was registered at the ports of the British Empire. The earnings of the shipping of the United Kingdom were estimated in 1913 at £94,000,000; this constituted about half of the total earnings of world shipping.¹

Ship Canal Traffic.

The relative proportions of British and foreign shipping may be conveniently studied in the percentage figures of the traffic passing through the two greatest canals. The proportion of British shipping passing through the Suez Canal reached its maximum in 1911, when it made up 64 per cent of the total. Since then there has been a tendency to fall, and in 1924 the proportion was only 59 per cent. The second country in importance in 1911 was Germany, whose ships made up over 15 per cent of the total. Until the war this proportion was rising steadily, but it has now fallen back to about 7 per cent. The figures for Dutch shipping are striking, inasmuch as they show an almost uninterrupted growth from 5.2 in 1910 to exactly

¹ See Appendix II.

double the percentage in 1924. France's share has increased by about 1 per cent in the same interval. There has been a very rapid growth of Italian shipping in the Suez Canal. Before the war, only about one ship in a hundred passing through the Canal belonged to Italy. But in 1924, not less than 6 per cent of the shipping sailed under the Italian flag. The only other countries to show a considerable advance are Japan, whose share has about doubled (average 1910-13, 1.8 per cent; 1924, 3.7 per cent), and the United States, which now owns 2 per cent.

As might be expected, the bulk of the shipping which uses the Panama Canal belongs to the United States. Her share in 1920 was 44 per cent; four years later this had grown to 60 per cent. Leaving the United States coastal shipping out of account, the share of the British Empire in the remainder is almost exactly equal to her share in Suez Canal traffic, namely, 59 per cent. Next come Japan with 8 per cent, Germany with over 6 per cent (rapidly increasing), and Holland and Norway with about 5 per cent each (with a downward tendency).

British Shipping Supremacy.

The reasons for this preponderance are many and varied. The more the people of Great Britain devoted themselves to manufacturing industry, the more dependent they became on distant lands for bulky raw materials and food, the transport of which demanded considerable cargo space. The most valuable of the outward cargoes were relatively small in bulk, but fortunately there was abundance of coal available for export to fill ships which might otherwise have had to sail with partial cargoes, or without any at all. It is, in fact, the large coal export which has led in the main to the appearance of the "tramp" ship, as distinguished

from the "liner." The former follows no regular route, but moves from port to port wherever cargoes can be obtained. Sometimes the "tramp" does not return to England for many years at a time, yet her earnings pay for a considerable part of our imports. The "liner," on the other hand, has a regular time-table of sailings with fixed ports of call. She may be a cargo liner or passenger liner. She carries mails and usually a miscellaneous assortment of special goods, whereas the "tramp" is better adapted for "straight" cargoes easily handled in bulk, such as coal, timber, wheat, and wool. "Tramp" steamers make up about three-fifths of the total British mercantile marine, and liners the remaining two-fifths.

The probability of finding a suitable return cargo encourages foreign shippers to consign goods to the ports of Great Britain. As no part of the double voyage is likely to be in ballast, freights to this country are often lower than those charged for consignments to foreign ports, even though these be nearer. The facilities given in London and other great ports for entrepôt trade, with a minimum of customs formalities, are of no small importance. The distribution of the imperial dominions among the five seas results in an enormous diffusion of British shipping interests. Our ships traverse all foreign waters *en route* for the ports of the Empire, and the greatest cities of the Empire are seaports. British shipping is mainly engaged in long-distance trade. That of the United States, by way of contrast, is chiefly coastal. But long-distance trade requires more ships and larger ships. Lastly, the highly-developed iron and steel manufactures of Great Britain, and the abundance and cheapness of coal in proximity to deep-water harbours, give to the shipbuilding industry of this country enormous advantages.

Early Railways.

The first iron railroad on which steam locomotion was employed connected Stockton with Darlington. The Act of Parliament which empowered the company to carry passengers was passed in 1823, and two years later the railway was opened. Immediately after, the Liverpool and Manchester Railway was built, and after a brief period during which private coaches, drawn by horses, were permitted to use the track on payment of toll, the company undertook to supply not only the iron track, but also to provide the vehicles and to carry passengers and goods at fixed charges. The rights which were at first reserved to private users to run their own trains were soon withdrawn.

When once it was realized that the railway companies could operate only as "common carriers," that is, that their services were available for everybody who cared to hire them at uniform rates, the system grew with extraordinary rapidity. There were in 1847 no fewer than 637 lines averaging fifteen miles each. During the 'forties the consolidation of the lines began, so that through traffic became possible, and fares and freight charges were put on a uniform basis. At the same time the Clearing House was established mainly to share out the revenue derived from through traffic. Further Acts of Parliament prescribed a uniform gauge.

By 1850 the main trunk lines in England had been laid down and in that year there were 6,621 miles of track. The greatest period of expansion covered the years 1845-7, when an extraordinary boom in railway promoting took place. Many lines were then constructed which could not hope to earn profits for many years, and the fever of speculation led to an acute financial crisis.

Railways in Foreign Countries.

While railways in England served to link up existing centres of trade, usually not far apart and already connected by road and canal, it was otherwise with the railways which opened up such vast territories as stretched across the Continent of America. These regions had hitherto been dependent on river transport, slow and circuitous as it was. Now tracks shot out straight as arrows across the great plains, and enabled thousands to establish themselves in new homes on the virgin lands of the West. Within a few years the grain of these wide-stretching farmlands was pouring eastward across the Atlantic, and the ruin of English agriculture was within sight. The first transcontinental line (the Union and Central Pacific) was opened in 1869. The Canadian Pacific was projected in 1870 and completed in 1886. The Trans-Andean line (Buenos Ayres to Valparaiso) was finished in 1909.

On the Continent of Europe the earliest railway construction took place in N.E. France, but by 1840 all the industrial countries of the central plain were busily planning their systems. Spain, Austria, Sweden, Russia, and some other countries did little until the 'sixties. Railways penetrated the Balkan States still later. During the Franco-Prussian War of 1870-1, the importance of the railway in warfare was first fully realized, and many lines were planned to serve strategic rather than commercial ends. As early as 1840 there were 2,800 miles of track in the United States of America compared with 800 miles in the United Kingdom and 800 miles in the rest of Europe. Twenty years later there was a mileage of over 53,000 in U.S.A., and this had increased to 156,000 by 1890. Railway construction in India began in 1853, in Australia in 1860, and in Africa still later.

Between 1850 and 1870 most of the foreign railways

were contracted for by English firms. Brassey, the great engineer, superintended the building of lines in Central and Southern Europe, India, Canada, and the Argentine. The construction of railways all over the world made great demands on the iron and steel industry of the United Kingdom. During the ten years ending 1876 she exported steel to the value of over 200 millions sterling. Until about 1850 the ore deposits of the British Isles had almost sufficed for the needs of the industry, but from that time increasing quantities of foreign ores had to be imported. The rapid development of railways all over the globe, made possible at first by British enterprise, reacted upon British industry. There was an unprecedented demand for all kinds of manufactured goods, required for the use and equipment of thousands of new communities which settled down astride the railways.

In the old countries the railways were built to link up established centres of population and industry ; in the new countries they were built in order to create traffic where little or none existed. " Lines were extended into partially populated and partially cultivated districts, whose population had no acquaintance with foreign trade, no surplus to export, no wish to travel. After the railways were completed all this was gradually changed. Cultivation increased and so did population ; the old resources of the land were developed, more than was necessary for local consumption was produced ; mineral and other natural wealth, hitherto profitless, was ready for export ; the traffic grew, and the existence of the railways was ultimately justified." ¹ Thus commerce developed most rapidly where modern transport enabled the industrial countries to obtain access to virgin areas.

¹ Bowley : *England's Foreign Trade in the Nineteenth Century*, page 88.

Motor Transport and Aviation.

The enormous development of motor transport since about 1900 is robbing the railways of the virtual monopoly which they have enjoyed for nearly a century. The ubiquitous motor-van can deliver goods from door to door. It need not work to scheduled times but is instantly ready. It can penetrate into remote places where railways are unknown. Already the motor-lorry, carrying medium loads over medium distances, has proved itself to be an admirable means of supplementing the services which railways render to commerce. It is especially useful in the work of retail trade. The aeroplane and the dirigible airship render services similar in character but differing in degree. The former has definitely established itself in regard to passenger traffic and the carriage of mails and some light articles of luxury. The commercial airship has yet to pass beyond the experimental stage.

Posts, Telegraphs, and Telephones.

The development of facilities for the transmission of messages across great distances has contributed no less to the extension of commerce. The introduction of the penny post in England in 1840 achieved such an instant success that the State thereupon undertook the delivery of parcels, the remittance of money, and a hundred other services of daily use to traders. Within a few years the telegraph, the cable, and the telephone were lending their aid. To-day, "wireless" reports of the conditions of crops, movements of markets and stocks, arrival of cargoes, and so forth, go rippling hourly round the globe.

CHAPTER XI

THE NEW COMMERCIAL SYSTEM

EVEN during the first half of the eighteenth century, there were not wanting voices raised against the policy of territorial expansion, and in favour of a more liberal attitude to trade. We have seen how Bolingbroke in 1713, and Walpole in 1733 advocated changes which would have led to an open-trade policy. By the middle of the eighteenth century the population of North America had grown to two millions (that is to say, equal to a quarter of the population of Great Britain at that time), with every indication that in a generation or two the daughter colonies would become as populous as the mother country. Gradually the old colonial theory was felt to be out of line with the facts of the situation. Indeed, the growth of colonial trade was so considerable that it could no longer be controlled. The home Government practically gave up the attempt to regulate it, and although the restrictions were still nominally in force, officials on both sides of the Atlantic turned a blind eye to the violations which were daily taking place. The smuggling trade reached extraordinary dimensions, particularly in the West Indian islands belonging to foreign powers.

When the peace treaty of 1763 was under discussion many advocated the abandonment of Canada in favour of some West Indian islands, on the ground that her wheat and timber were inferior, that the country served only as an armoury for the French, or as a factory for the fur trade; that in any case separation was ultimately inevitable; that the expense of maintenance was not justified by the thin sprinkling of British settlers among a foreign population; and that since

the trade with the revolted colonies was more than a hundred times as valuable, it was better to concentrate on this. Even French statesmen held it to be advantageous to France that England should retain Canada. Merchants began to ask what, if any, advantage accrued to themselves from buying Canadian timber instead of Norwegian.¹ It was surely better that trade should be allowed to flow along the channels which led most quickly to profit ; indeed, no government restrictions could in the long run prevent its doing so. The guiding principle of commerce was to buy in the cheapest market and to sell in the dearest. "A customer was a customer still, even if he traded under another flag."

Commerce and politics were thus divorced. The earlier mercantile theory set up national power as the goal ; the requirements of the State were paramount ; individual advantage must bow to a superior necessity, that of the nation as a whole. The new conception laid stress on the importance of individual freedom. For if each were at liberty to pursue his own economic advantage without interference from the State, the wealth of the nation, being merely an aggregate of the wealth of individual citizens, would be also increased, and power would follow as a matter of course.²

The Physiocrats.

The mercantilists held that a nation which profited by trade did so at the expense of her neighbours ; that to purchase commodities was always less advantageous than to sell them, since the former tended to diminish the quantity of gold and silver in the pockets of the nation ; and that a stock of the precious metals

¹ Hertz : *The Old Colonial System*, page 188.

² See the discussion of the origins of *laissez-faire* or economic individualism in Cunningham : *Growth of English Industry and Commerce in Modern Times*, pages 593 foll.

was a more desirable form of wealth than any other. The new physiocratic theories, which began to win acceptance in France and England in the middle of the eighteenth century, denied the validity of each of these doctrines. They declared that no exchange could take place at all unless there were some advantages to be gained on both sides. The enrichment of one party to a free bargain could not possibly involve the impoverishment of the other. Commerce, therefore, should be hampered with as few restrictions as possible. The more frequent the transactions, the greater was the benefit to all. It was not to the advantage of any country that her neighbours should be too poor to buy from her.

It was argued that mercantilism rested on assumptions which nullified one another, and the argument was reinforced by the "quantity theory" of money. For, in proportion as a country, A, by the sale of its products, succeeded in drawing to itself wealth in the form of bullion, by so doing it necessarily reduced to that extent the future purchasing power of its customers in country B. Not only so, but the increase in the supply of gold and silver in A would so depreciate the precious metals in terms of commodities, say wool, that prices there would rise. That is to say, more money would in future be demanded in exchange for a bale of wool. The effect of this increase of prices would be to reduce still further the number of purchases which B could make from A. It might be that A, having created for herself a virtual monopoly, might for a time compel B either to purchase from her at increased prices or to go without. But in the long run the inhabitants of B would either discover new and cheaper sources of wool or resort to substitutes. Moreover, the scarcity of precious metals relatively to commodities in B, induced by the policy of A, would tend to a lower level of general

prices in that country. More wheat, for example, would now exchange for the same quantity of gold. In consequence, purchasers would be attracted to B; those countries which had previously purchased from A would now transfer their custom. In this way, equilibrium would be re-established.¹

The "physiocrats" were so called² because they conceived the idea that the soil was the source of all wealth, and that agriculture must always remain the sole foundation of national prosperity. The first systematic demonstration of their leading ideas was given by Turgot in France. He probably influenced Adam Smith, whose epoch-making *Wealth of Nations* appeared in 1776.

Effect of the Seven Years War.

The reaction against the old colonial system was stimulated by the consequences of the Seven Years War, the cost of which fell mainly on England, whose money had been required to keep the allies, especially Prussia, in the field against France. A serious financial situation arose which made it necessary to increase the national revenue. Orders were conveyed to custom house officers, naval commanders, and colonial governors that the Navigation Laws were to be strictly enforced. Foreign vessels found in British West Indian ports were to be seized. Smuggling was to be suppressed with ruthless severity. The excitement caused

¹ In Toynbee: *Industrial Revolution*, pages 82-3, there is an interesting example: "During the potato famine of 1847, we had to import enormous quantities of grain from America, and as a consequence had to send there £16,000,000 worth of bullion. Immediately prices rose in America and fell in England, English merchants discontinued buying in America, while American merchants bought largely in England, so that in the following year all the gold came back again."

² The word is derived from two Greek roots signifying "nature" and "rule."

by these measures in the colonies was intense, and a strong anti-British sentiment was created.

There had been little inter-colonial trade along the Atlantic coast, and each settlement had ordered its economic life in complete independence of the others. The restrictions and prohibitions which each community placed upon commercial intercourse with its neighbours, were in fact as severe as those aimed against foreign countries. But the effect of the quarrel with England was to prompt the several groups of colonists to sink their differences, and to make common cause in the demand for economic and political freedom. By rapid stages, events moved from peaceful protest to riotous boycott, to armed rebellion, to bitter warfare, and finally in 1776 to the Declaration of Independence.

The Decline of Mercantilism.

There were some immediate practical consequences of the change of opinion among merchants and industrialists. In 1786 Pitt concluded the Eden Treaty with France, whereby the old prohibitive tariffs gave place to moderate duties, and each country accorded to the other "most-favoured-nation" treatment, very much on the lines of the premature attempt of 1713. The treaty was short-lived, because it did not command universal acceptance in France, where the interests of the manufacturers of the North conflicted with those of the wine-growers of the South. But Pitt's discipleship of Adam Smith nevertheless led to important reforms of economic policy in England. He reduced the duties on many articles of universal consumption, and advocated free trade between England and Ireland. He modified the Navigation Acts so as to permit the American colonies to export their produce to England in their own ships. We have seen how Adam Smith had attacked the Methuen Treaty,

and the unexpected turn in the balance of trade with Portugal had given point to his criticism. The consumption of raw cotton in England was rapidly increasing, and the large quantities imported from Brazil *via* Portugal were sufficient to cancel the former excess of our exports. There were few protests, therefore, when Pitt allowed the Methuen Treaty to lapse, and admitted French wines into England at the same rate as Portuguese.

Napoleon's Attacks on British Trade.

These endeavours to establish foreign trade on a more liberal basis coincided with a considerable expansion of British trade ; but the French Revolution and the war which followed caused a revival of the old restrictions and prohibitions. During the war Napoleon attempted by means of a bold design, known as the "Continental System," to destroy British commerce, and to raise France to the position of the leading commercial power in Europe. Having established a military dominion over almost the whole of continental Europe, but unable so far to touch Britain in any vulnerable spot, he resolved to strike at her shipping and commerce in the fond hope that "the nation of shopkeepers" would thereby be deprived of the sinews of war. By the Berlin and Milan Decrees (1806-7) Napoleon declared all the ports of those countries occupied by his armies (France, Holland, Spain, Italy, and Germany) to be closed to enemy shipping, and Britain herself to be in a state of blockade. No neutral vessels which had touched at a British port were to be admitted into Continental harbours. All correspondence with Great Britain was prohibited. All the property of her subjects in the countries occupied by the French was confiscated. The British reply was issued in the "Orders in Council," which declared a

reciprocal blockade of all countries from whose ports the British merchant flag was excluded, and forbade neutral ships to enter Continental harbours unless they had previously touched at a British port or were specially licensed.

The "Continental System" of Napoleon was not watertight. Having no naval power adequate to the task, it was impossible for him to enforce the embargo. We read of French agents who, unable to obtain supplies of clothing and boots for Napoleon's army from Hanseatic factors, had to buy them from Halifax and Leeds. Heligoland was seized and made to serve as a depot for contraband trade with the ports of the mainland. In particular, American vessels, until their seizure by Napoleon in the ports of France in 1808, smuggled vast quantities of goods of British origin, hoisting the French or British flag as it suited the occasion.

PROBLEMS OF NEUTRAL COMMERCE

While England and France were engaged in their great duel for the mastery of the seas, the right of neutral states to carry on their commerce without let or hindrance on the part of the belligerents, was emphatically asserted by Catherine of Russia in 1780. She was strongly supported by Denmark and Sweden. Russia had only recently emerged as a Western power, and a few words are necessary as to the part played by Peter the Great in raising her to the status of a first class commercial power.

Russia Under Peter the Great.

During his travels in Holland, England, and Italy, the Emperor acquainted himself at first hand with the processes of shipbuilding, paper-making, printing,

flour-milling, and many other useful industries previously unknown to his people. On his return he established, under the control of foreign scholars, engineers, and craftsmen, many schools, hospitals, printing presses, and factories. Having learned in the West the vital importance of good communications, he constructed roads and canals, cleared forests and drained marshes, and by the establishment of his capital (St. Petersburg) and other ports on the Baltic, provided for Russia avenues to Western commerce. Previously all access to the sea had been *via* the port of Archangel, which was for six months in each year closed by ice.¹ The expansion of Russia westward brought Peter into conflict with Charles XII of Sweden, who claimed the Baltic as "a Swedish lake," but the defeat of the latter at the Battle of Pultowa (1709) definitely raised Russia to the position of dictator of the North. Peter also pushed back the Russian frontiers to the South and East, and set up commercial relations by caravan with China.

Declaration of Neutral Rights.

His work was carried on by the Empress Catherine II, a ruler of remarkably enlightened views. In addition to her labours for the moral and intellectual uplifting of her people, she pursued a liberal economic policy, throwing open the new Russian ports on the Baltic and Black Seas to the trade of all nations. In 1780 she issued her famous *Declaration of the Rights of Neutral Nations*. Catherine asserted the fundamental principle: "Free ships make free goods," or, as otherwise expressed: "The flag covers the merchandise." It was claimed that neutral ships should be allowed

¹ The trade which passed through Archangel was chiefly in timber, required in the Western countries for the expanding shipbuilding industry in the seventeenth century.

to pass freely to and from the harbours of the world, and have access even to the ports of the belligerent nations. "Paper blockades," that is to say, blockades which were not made effective by an adequate naval force, should not be recognized. Neutral ships might be searched if the search were courteously effected, but only material used in actual fighting, such as weapons, ammunition and accoutrements, should be treated as "contraband of war." Merchantmen of neutral nations, sailing under a naval convoy, should be totally exempt from search.

These principles found warm support in every country of the world except Great Britain, which insisted on her right to seize enemy ships even on the high seas, and to confiscate as contraband of war in neutral ships any military and naval stores destined for a belligerent, including, for example, corn and hemp from Russia, on the ground that these gave strength and support to an enemy. The reprisals of the Armed Neutrality League were a serious embarrassment during the later stages of the War of American Independence, and contributed in no small measure to Britain's failure to reduce the rebellious colonies to obedience.

Effects on Shipping.

The decrees of Napoleon on the one hand and the Orders in Council on the other, had the effect of excluding American shipping altogether. The losses of ships and cargoes were so great that for a time the United States Government forbade any of their own ships to engage in foreign trade, and permitted coastal trade only.¹ The consequence of this was severe

¹ It is said that some of the lighthouses along the American coast ceased to function because they were of use only to British ships.

depression in America, and the growth of a strong anti-British sentiment which persisted long after the naval war of 1812 between the two countries.

During the war with Napoleon in the closing years of the century, the rights of neutral shipping served again as a slogan to unite the powers who found the carrying trade of the world steadily passing under British control. Nevertheless, little damage was done to British shipping except in the Baltic area, where the neutral powers, Russia, Sweden, and Denmark, profited by the traffic in naval stores. In other parts of the world Great Britain attained to what was practically a monopoly of the carrying trade. The only other ships trafficking on the high seas were those which sailed under licences from the proceeds of which the Lords of the Treasury reaped a rich harvest. Freightage rates were so high that shipowners earned extraordinary profits, and prices of foreign products in Europe reached fabulous heights.

THE MOVEMENT TOWARDS FREE TRADE

The rigid protection of the Mercantilist Age, though it was being steadily undermined by the arguments of the new science of wealth, and by the tentative provisions of the new commercial treaties, stood, after the close of the war in 1815, still practically intact. For a year or two British exports served to rehabilitate Europe, but the year 1816 was marked by a severe slump in British trade. The monopoly which we had enjoyed now ceased. The manufactures of the Continent quickly revived, and we were faced with competition once again. There were still vast surplus quantities of supplies in our warehouses, and until these were absorbed production had to go slow. The prosperity

of the war years was purely artificial, and the declaration of peace found trade burdened with a stupendous load of debt.

In these circumstances, attention was again called to the principles which governed our whole commercial system, and Brougham asked Parliament to deal fearlessly with "many prejudices alike antiquated and senseless, unsuited to the advanced age in which we live and unworthy of the sound judgment of the nation." He defined these prejudices as "all trade and no barter; all selling and no buying; all for money and nothing for goods." But though everyone was prepared to accept in the abstract the doctrines of free trade, no manufacturer welcomed their application to his own trade.

The Petition of the Merchants of London.

The new ideas, nevertheless, made headway. Lord Liverpool said that if he had to legislate for the country *de novo*, he would adopt the free trade principle. In 1820 the famous petitions of the Merchants of London and the Edinburgh Chamber of Commerce were presented.

The younger generation of statesmen, including Peel, Huskisson, and Canning, reinforced by the individualist teaching of Bentham, set to work from 1822 onwards to give commerce and navigation freedom from the old restrictions, as far as this could be done without violently disturbing vested interests and sacrificing State revenue. The first step was to place all countries of Europe on an equal footing with regard to commerce with the United Kingdom, abolishing those discriminations which were disadvantageous to Holland, Russia, and Turkey in comparison with other countries. In 1830, after a long tariff war which inflicted great harm on the West

Indies, the trade of British colonies was thrown open to all states which should grant the same privilege to British ships, subject only to the fundamental principle of the Navigation Acts that the cargo must be derived from the country to which the ship belonged. At the same time reciprocity treaties were entered into with all countries in Europe, and in order to encourage the system of bonded warehouses at British ports, the list of articles admitted duty free for ultimate re-export was extended. All these measures were calculated to benefit the carrying trade, and met with little opposition.

Huskisson's Tariff Reforms.

The removal of the customs barriers was a much more difficult matter, because here the interest of manufacturers had to be considered, and in view of the enormous burden of war debts even a slight sacrifice of revenue was not lightly to be contemplated. The policy of Huskisson was "to abolish all discriminating duties affecting differently the like production of foreign countries, and in lieu thereof to establish one uniform tariff for the whole : secondly, to reduce the tariff to the lowest degree consistent in each particular article with the two legitimate objects of all duties, either the collection of public revenue, or the protection absolutely requisite for the maintenance of our own internal industry."¹ He began by reducing the import duties on raw silk and wool, and allowing bounties on fisheries and Irish linen export to lapse, either immediately or by a gradual process. Later, metals and other raw materials were admitted at lower rates, and the duties on articles of foreign manufacture imposed for protection, and not for revenue, reduced to a maximum of 30 per cent *ad valorem*. A

¹ Quoted in Page : *Commerce and Industry*, pages 61-2.

great fight took place over the question of admitting foreign manufactured silk ; the Spitalfield Masters pleaded for its continued exclusion ; the answer of a Free Trader was to unfurl his silk handkerchief, " the standard of smuggling," and to blow his nose in it.¹

Smuggling was, in fact, a thriving trade, and the profit which " runners " might secure by evading the customs officers was always to be taken into consideration in fixing duties. Lower tariffs not only made smuggling an unprofitable business, but saved the nation the cost of maintaining an army of coast-guardsmen and a navy to keep watch for contraband trade.

" For the year ending 5th January, 1840, the net produce of the customs was £22,962,610. Of that amount ten commodities produced £20,871,136 ; six other commodities £1,147,148. Thus, speaking broadly, sixteen articles contributed over £22,000,000, while all the other customs duties gave less than £1,000,000. Examined in detail, many of the items yielded so little as to excite ridicule ; e.g. crystal beads, subject to a duty of 28s. 6d. per 1,000, gave 1s. 7d. revenue in 1839-40 ; extract of vitriol, subject to 25 per cent duty, 12s. 3d. ; starch, at a duty of £9 10s. per cwt., 1s. 9d. ; Bruges thread, charged 15s. per 12 lb. only 1s. 3d." ² In 1826 the number of articles subject to duty was 1,280.

The manufacturers, now faced with keener competition from European rivals, pressed for the repeal of the Corn Laws of 1815, which forbade the importation of corn till the price was 80s. a quarter. Like many earlier measures of a similar kind, the Corn Laws had been framed in the agricultural interest. But the

¹ *Commerce and Industry*, page 66.

² Bastable : *Commerce of Nations*, page 59.

manufacturers complained that the high price of bread forced them to pay high wages to the industrial workers, and that they were in consequence unable to compete successfully with foreign manufacturers in countries where the cost of living and level of wages were lower. Notwithstanding the warnings of those who pointed to the consequences that would follow if the population became permanently dependent on precarious supplies of foreign corn, the duties were reduced by Wellington in 1828, and a sliding scale introduced so that as corn fell in price the duty was raised, and vice versa.¹

The Agitation for Total Repeal.

Led by Hume and Villiers the agitation for total repeal went on unceasingly. In 1838 the Anti-Corn-Law League came into existence. Richard Cobden and John Bright undertook a vast campaign to marshal public opinion against the Corn Laws. It was argued that since dependence on foreign corn had become inevitable, it was far safer that this dependence should be constant and not casual, and that the whole world, rather than restricted areas, should be regarded as the granary of Great Britain. The potato famine in Ireland hastened the crisis. Finally, in 1846, the Anti-Corn-Law League prevailed, and Sir Robert Peel persuaded his party to accept a measure whereby, as the result of a gradual process, the duties on imported corn were abolished.²

In the campaign for the repeal of the Corn Laws not only was the main stronghold of the protected interests stormed, but also many minor positions were at the same time, almost without a struggle, captured by the

¹ The scale began with a duty of 1s. at 73s., falling to 16s. 8d. at 68s., 36s. 8d. at 50s., and so on.

² In 1869 the duty, which had been 1s. since 1849, finally disappeared.

advocates of Free Trade. Import duties, other than those on corn, were dealt with by Peel in accordance with the general maxims which he laid down as governing commercial policy.

In 1842 about 750 articles were admitted without duty or subjected to smaller tariffs. In 1845 further reductions were made, especially affecting raw materials ; of these 450 were put on the free list, including such important items as raw silk, hemp, cotton, and hides. The differential duties in favour of West Indian sugar were abolished in 1848, and so an opportunity was given to the beet sugar industry on the Continent. Also, in the interests of home consumers, the preference given to Canadian timber was removed, so that it had now to compete with the products of Norwegian forests.

At the same time the surviving Navigation Acts were once again brought under review. It was proposed to throw open "the whole navigation of the country, of every sort and description," leaving it to the colonies to do the same if they thought fit. The opponents of repeal fought hard for the continuance of the Navigation Acts, on the ground that British naval supremacy had been built up upon them. They stressed the importance of maintaining a strong mercantile marine as a feeder for the navy, even though it cost the nation something in higher prices. "Defence is of more importance than opulence." But the provisions of the Acts had been so often relaxed under pressure from competitors, especially the United States, that they now in fact afforded but little effective protection. They had come to be regarded as inconvenient and harassing to shipping of the United Kingdom, and a positive hindrance to the development of the colonies, especially Canada.

The manufacturing industries of Great Britain were by

the middle of the century so well developed, that her merchants were prepared to invade every market into which they could effect an entrance. It was clearly to her interests that the expansion of British trade should be hampered by as few restrictions as possible, and the opening of the ports of Great Britain to the shipping of all nations was the policy most likely to bring about the general freedom of the seas which she desired.

The " Open Door " in Europe.

It was confidently anticipated by Cobden that the example of England would be followed by other nations, and that eventually the trade of the whole world would become free. But the argument for Free Trade in any country was not considered to be invalidated even if this result did not follow. The pure doctrine was that the liberation of trade should be promoted as good in itself, quite apart from any reciprocal action by rivals.

There seemed to be at first every prospect that the anticipations of the Free Traders would be realized, for there was in many European countries a movement in the direction of lower tariffs. France, in 1860, entered into the Cobden Treaty, although there was opposition from her manufacturers; she undertook to reduce the duties on English coal and coke, iron and steel, tools, machinery, chemicals and yarns, and to abolish the prohibitions upon cutlery, woollens, cottons, linens, silks, and carriages, which were in future to be admitted at a low duty. In return Great Britain abolished all duties on French manufactured goods, chiefly those of luxury and taste, such as silks, bronzes, goldsmith wares, jewellery, gloves, artificial flowers, and millinery, and to reduce the tariff on brandy and wines to the level of that charged to the

colonies. Each country granted to the other "most-favoured-nation" treatment.¹

The conclusion of this treaty marks the beginning of a new commercial age. There was a similar agreement between France and Belgium (1861). In the following year Belgium admitted British goods on the same terms as French, which meant an average tariff reduction of 50 per cent. In the same way, "most-favoured-nation" agreements in 1863 between France on the one hand and Italy and Prussia on the other, were immediately followed by the admission of Great Britain to share the benefits. By 1866 Hamburg, Bremen, and Lübeck, Holland, Sweden, Norway, Austria, Spain, Portugal, and Turkey had entered into similar arrangements, and the whole of Europe seemed to be moving steadily towards the system of the "open door."

State Intervention.

The application of the principle of liberty to internal affairs brought about the removal of many chains, and the lifting of many burdens which had hitherto fettered individual enterprise. The abolition of the newspaper tax in 1855, and the repeal of the paper duty six years later, led to a vast expansion of the printing trade, and created a cheap press. At the same time, in the interests of a higher liberty than that of the individual, the State began to exercise control over industry and commerce. The remarkable speculation in railway shares in the 'fifties drew attention to the unsatisfactory condition of the law of partnership and joint stock enterprise. The problem was to encourage the

¹ The Treaty was carried through by the efforts of the Emperor Napoleon III, who, with his Minister of Commerce and the support of the Liberals, according to Cobden, accomplished "in France, in the course of a couple of years, what has taken us in England at least thirty years to effect" (i.e. the abolition of protective duties). Hirst: *Free Trade and the Manchester School*, page 343.

joint stock principle, while removing the haunting dread of each shareholder that he might at some time be called upon to meet the whole liability for the debts of the company. The difficulty was solved by the application of the principle of "limited liability," whereby the financial responsibility of the shareholder was limited to the extent of his holding. The law required registration, and full publicity afforded additional safeguards. As a result of such measures, joint stock enterprise increased rapidly, and, contrary to the belief of Adam Smith, who had declared that this form of business organization was possible only in banking, insurance, and wherever transactions were capable of being reduced to the routine of a few well-understood operations, it was found that joint stock methods were in fact capable of much wider application.

The principle of non-interference in trade and commerce was thus balanced by one of intervention applied to matters in which, in the absence of regulation, there would be an appearance of freedom without the substance. Although, according to strict individualistic theory, an employer and a worker were capable of making the best mutual bargain if left alone to do so, actual experience of the facts of industry made it clear that, at any rate, women and children ought not to be permitted to enter into wage contracts which were contrary to the public interest. Legislation was required, therefore, to limit the working day, to restrict employment of children, and to enforce reasonable conditions of labour for all. The principle of unfettered freedom was modified in a similar way in regard to housing, sanitation, public health, education, and all departments of social life.

Emigration.

There was, further, a change in the character and

motive of emigration. At the end of the eighteenth century we find the beginnings of colonization proper, when the emigrants sought new and permanent homes, and built up vigorous communities in which a national sentiment gradually came into existence. The change was, in the main, the result of economic forces. The revolution in methods of industry and agriculture had divorced the yeomanry of England from the land, and had offered the choice of precarious wage-earning in the factory or an independent life in the colonies. The rapid growth of population had scared the governing classes into a belief, reinforced by the teachings of Malthus' *Essay on Population*, that the country was approaching a condition of over-population which called urgently for positive expedients to reduce the surplus. Consequently, assistance was given to emigration, both by the Government and by philanthropic agencies.

The exodus from England and Scotland was chiefly towards Canada. National sentiment being strong, the emigrants moved towards the comparatively empty but habitable spaces, or towards regions occupied only by races of backward civilization who could easily be brought into subjection. On the other hand, the chief attraction for the Irish and the Continental Europeans was exerted by the United States. The larger proportion of these emigrants was lost altogether to the nations that gave them birth, for they were absorbed into a highly civilized but alien community of white people. These changes in the character of overseas settlement have a bearing on the question of colonial policy. For clearly the arguments for the old restrictive system lost force as "possessions" developed into "colonies," and "colonies" ripened into "dominions."

A New Era of Expansion.

The increasing productivity of manufacturing

industry employing mechanical power, and fed by abundant capital, implies the parallel development of a market large enough to absorb the output as fast as it is created. Such an expanding market for cotton products in the eighteenth century was found in the East and West Indies, and for woollen goods in Europe and the American colonies. In the nineteenth century, as we have seen, our iron and steel products (rails, locomotives, bridges, ships, agricultural machinery, and so forth) helped to open up new lands in South America and the western states of North America, Africa, and Australia. England gradually encircled the world with a cotton thread and a hoop of steel, and the remotest people on the globe did not escape the stress and urge which in the span of two generations first enlarged the local into a national market, and in the two following generations expanded this to world-wide dimensions.

At first overseas markets were limited by the difficulty of penetrating into the interiors. Until the era of continental exploration, commerce was coastal. Islands, with a relatively longer coastline, gave greater opportunities for commerce than areas with large but inaccessible populations. "One cause of the slowness of the growth of foreign trade was that the new markets beyond the seas were really very narrow. It is true that more than half the coastlines of the new continents had been 'discovered'; but the countries behind those lines were still more inaccessible. The seaports which were open to Western traders gave them access to small islands of trade, rather than to large territories: they could not always venture very far out of hearing of the sea waves. Their goods might indeed be distributed by native merchants: but only the munitions of war, and luxuries for the rich, would generally bear carriage far into the interior. And further, in the

highly civilized parts of the East they met textile and metal goods made by as subtle a skill as their own. They could sell a few trinkets in some ports in exchange for precious metals, furs, ivory, etc., given by ignorant people on terms extravagantly favourable to the European traders. But the quantities of such goods which were on offer, were small ; the aggregate volume of that particular trade was trivial when judged by a modern standard. The profits to be earned in the more solid trade for spices, tea, and other vegetable products were at a constantly falling rate per cent, though in constantly increasing aggregate volume.”¹

At the beginning of the nineteenth century the chief external commerce of Great Britain was European ; next followed in order American, Asiatic, and African. The total value of export trade was about £36,000,000, and it stood at about this figure for many years. But the fall in prices, due to mass production, was such that the figures conceal a considerable increase in the volume of trade. This increase was due mainly to the development of colonial markets. The Old World was passing through a new phase of expansion, demanded by the pressure of economic facts. The growth of population in the countries of Western Europe compelled each country to pass from the condition of a food-exporting or self-sufficing economic unit to that of dependence upon foreign supplies. The desire to control such supplies of food and raw material led each to assert political sovereignty over new areas of production. In this way the nineteenth century was remarkable for a renewed expansion of the European peoples over the whole surface of the globe.

Political sovereignty sometimes led to commercial exploitation—“ trade followed the flag ” ; but usually the process was reversed, and the merchant opened up

¹ Marshall : *Industry and Trade*, page 37.

territory which afterwards passed into the hands of the administrator. The history of India affords one illustration of this, the East India Company passing through many phases until it ceased altogether to be mercantile, and became solely administrative. In a similar way, during the nineteenth century, chartered companies (for example, in Africa) developed territories which afterwards reached the status of imperial dominions.

Exports, Re-exports, and Imports.

Let us consider a few figures relating to the growth of British foreign trade, contained in the Statistical Abstracts for the United Kingdom from 1850 to 1922. In the first twenty years (1850-70) exports rose from £71 millions to £199 millions; re-exports rose from £18 millions (in 1854) to £44 millions; imports rose from £152 millions to £303 millions. In 1890 the figures were: exports, £263 millions; re-exports, £64 millions; imports, £421 millions. During this period the population increased from about 27 millions in 1850 to 31 millions in 1870, and 37 millions in 1890. The table below shows approximately the growth of external trade per head of population.

The average shipping entered and cleared at ports

	PER HEAD OF POPULATION.		
	1850.	1870.	1890.
	£ s. d.	£ s. d.	£ s. d.
Exports . . .	2 12 -	6 8 -	7 2 -
Re-exports . . .	13 -	1 8 -	1 15 -
Imports . . .	5 12 -	9 15 -	11 7 -
	1910.	1920.	1922.
Exports . . .	9 11 8	28 9 5	15 2 11
Re-exports . . .	2 6 2	4 15 1	2 2 8
Imports . . .	12 15 10	36 9 7	18 18 8

in the United Kingdom, during the 'fifties, was rather less than six million tons. In the five following decades the tonnage increased to 10, 16, 23, 29, and 36 millions. The figures showing the growth of tonnage of sailing and steamships belonging to the British mercantile marine, are equally striking—

Year.	SAILING.		STEAM.		TOTAL.	
	No.	Net Tonnage.	No.	Net Tonnage.	No.	Net Tonnage.
1850	24,797	3,396,659	1,187	168,474	25,984	3,565,133
1860	25,663	4,204,360	2,000	454,327	27,663	4,658,687
1870	23,189	4,577,855	3,178	1,112,934	26,367	5,690,789
1880	19,938	3,851,045	5,247	2,723,468	25,185	6,574,513
1890	14,181	2,936,021	7,410	5,042,517	21,591	7,978,538
1900	10,773	2,096,498	9,209	7,207,610	19,982	9,304,108
1910	9,090	1,112,944	12,000	10,442,719	21,090	11,555,663
1920	6,309	584,046	12,307	10,777,038	18,616	11,361,084

The shipping statistics supply more reliable evidence of the growth of foreign trade than the tables of export and import values, because the latter may be swollen or diminished by a rise or fall in general price levels. But taken together they indicate that there was a very considerable expansion of trade.

It is undeniable that the introduction of a freer commercial system synchronized with this enormous expansion of British trade and shipping. But it is unsafe to assume without further examination that this prosperity was due to any single cause. The apparently obvious "single-cause" explanation of historical movements is seldom the true one, and it is prudent to inquire what other influences may have co-operated to produce any given result.

Contributing Factors.

Probably the most important single influence contributing to this unparalleled development of commerce

was the great increase in human efficiency due to the progress of mechanical invention and the advance of applied science. The effect of steam transport and telegraphy, in reducing the importance of the obstacles which distance and time presented to commerce, was reinforced by the removal of other barriers. The cutting of the Suez Canal in 1869 brought India 4,000 miles nearer by sea to England. The substitution of steel for iron lightened the ship while enabling it to carry more cargo. In consequence, traders effected exchanges in less time; their "turnover" was quickened; they transacted more business with a smaller stock; there was less idle capital. As trade became more direct the middleman was rendered to that extent unnecessary. The inauguration of a freer system coincided with the opening up of vast new territories to trade, and with the beginnings of popular education, the humanizing of industrial employment, the progress of medicine, surgery, and sanitation. The general effect was to produce cheapness and plenty, to increase human leisure by the saving of labour, to give opportunity and encouragement for the creation of new and higher wants, which called for a still further exercise of inventive and organizing genius.

CHAPTER XII

CHARACTER OF COMMERCIAL ORGANIZATION IN RECENT TIMES

THE growth of new communities reacted powerfully upon the economic structure of the European countries. We have already seen how the mercantile conception of self-sufficiency faded into the background, and gave place to the idea of unfettered and interdependent trade. Specialization of function was now carried much farther, a larger proportion of the capital of each country passing into the service of those industries which could for one reason or another be most advantageously carried on. Brazil and the Argentine specialized in the production of foodstuffs and raw materials for manufacture. Great Britain specialized in textile and steel manufactures, which were exchanged for these products.

Specialization of Function.

As long as manufactures were fed by raw material of home production, industry continued to be organized on the domestic system. There was little tendency to concentration and little differentiation between employer and worker, since labour, ownership of tools and materials, and management were all at hand within the limits of the family. The workman was his own master; he owned the materials upon which he worked and the implements he used, and himself marketed the product. Usually he could fall back upon the produce of a small agricultural holding for the maintenance of his family. But the new cotton and silk manufactures were dependent upon raw materials of foreign origin, and this fact gave rise to

greater differentiation of function in industry. There was the commercial function—to provide for a constant supply of raw materials from distant sources, and to dispose of the manufactured products in near and distant markets. There was the capitalistic function—to furnish from accumulated wealth whatever was necessary for the subsistence of everyone engaged in the business, until the cycle of production was complete and the profits secured. There was the function of the craftsman or the labourer—to bring to bear acquired skill of hand or natural strength of body in the actual processes of manufacture. Lastly, there was the managerial function—to secure the most effective co-operation of all the other factors in production.

As the business unit grew larger, differentiation of function became more exact and detailed. The organization of transport itself became a highly specialized business, involving the co-operation of the dividend-earning investor, the salaried manager, and the wage-earning worker, together with a number of ancillary agents to deal in shares, to attract further capital for developments, or to supply insurance against risks. Similarly, manufacture has developed special organs. Within the last few years the conditions created by the war have called into existence highly trained staffs of costing clerks, research workers, motion-time experts, and welfare workers. The disposal of the product, which is the true commercial function, has shown the same tendency to pass out of the hands of the general practitioner, and to call for the services of the specialist.

The wholesale firm has a staff of sales managers, accountants, and commercial travellers; the distributive firm employs the advertising or publicity expert, the window-dresser (often a professional artist),

the mannequin, and the shop-walker. All the various types of commercial organization are controlled by boards of directors, men of influence accustomed to take large views, ready to seize occasion for the manipulation of the press, or even of Parliament, for the furtherance of business ends, and bringing to bear the considerable "inside" knowledge which they possess of the current of affairs. Every commercial enterprise of any importance calls for the co-operation of all these specialized workers. Co-operation is the corollary of specialization.

In agriculture the enclosure movement created the conditions necessary for the development of special functioning. Here capitalistic organization destroyed the yeoman class of owner-cultivators, and substituted the tripartite co-operation of landowner or *rentier*, the profit-earning tenant-farmer, and the wage-earning labourer. Notwithstanding this fact, agriculture in Great Britain has unfortunately not succeeded as completely as manufacturing industry in harvesting the economies of large-scale organization. The commercial function has been insufficiently developed; many considerations, not economic in character, have delayed the introduction of new processes which invention has suggested; and the unit of working capital, being that of the individual farmer, is still relatively small.

Co-operation.

As the satisfaction of our wants becomes less direct, there is so much the greater need for the co-operation of producers to furnish us with the simplest requirements of life. Adam Smith opened his inquiry into the "wealth of nations" by a vivid description of this characteristic of modern economic life. "The woollen coat, for example, which covers the day

labourer, as coarse and rough as it may appear, is the product of the joint labour of a great multitude of workmen. The shepherd, the sorter of wool, the wool-comber or carder, the dyer, the scribbler, the spinner, the weaver, the fuller, the dresser, with many others, must all join their different arts in order to complete even this homely production. How many merchants and carriers, besides, must have been employed in transporting the materials from some of those workmen to others who often live in a very distant part of the country! How much commerce and navigation, in particular, how many shipbuilders, sailors, sail-makers, rope-makers, must have been employed in order to bring together the different drugs made use of by the dyer which often come from the remotest corners of the world! . . . Were we to examine, in the same manner, all the different parts of his dress and household furniture, the coarse linen shirt which he wears next to his skin, the shoes which cover his feet, the bed which he lies on, and all the different parts which compose it, the kitchen grate at which he prepares his victuals, the coals which he makes use of for that purpose, dug from the bowels of the earth, and brought to him perhaps by a long sea and a long land carriage, all the other utensils of his kitchen, all the furniture of his table, the knives and forks, the earthen or pewter plates upon which he serves up and divides his victuals, the different hands employed in preparing his bread and his beer, the glass window which lets in the heat and the light, and keeps out the wind and the rain, with all the knowledge and art requisite for preparing that beautiful and happy invention, without which these northern parts of the world could scarce have afforded a very comfortable habitation, together with the tools of all the different workmen employed in producing those different conveniences; if we

examine, I say, all these things, and consider what a variety of labour is employed about each of them, we shall be sensible that without the assistance and co-operation of many thousands the very meanest person in a civilized country could not be provided, even according to, what we very falsely imagine, the easy and simple manner in which he is commonly accommodated.”¹

If anything, this interdependence of one producer on another has not diminished but increased since Adam Smith's day. It is to be found uniting the interests not only of individuals but of nations. Nevertheless it would be misleading to suggest that the co-operation arising from this mutual dependence is in the main conscious, or always organized by a superior intelligence. Co-operation proceeding by design hardly exists outside the single industrial or commercial enterprise. Beyond these limits our varying interests are co-ordinated by the operation of the social amalgam of money or credit, which measures the value of our labour or produce to the community, and determines how far we have a call upon the labour or produce of others for our own purposes.

Among consumers, co-operative association has been organized as a conscious movement, and its progress has been remarkable. Beginning with the establishment of the Rochdale Store in 1844, it has since encompassed the whole world. In the United Kingdom there are now over 1,300 retail distributive societies with a total membership of four and a half millions. The annual turnover is about £32 millions sterling. About one in every ten of the population supplies his ordinary requirements of food, clothing, fuel, furniture, and so forth by co-operative trading, whereby the profits are returned to him in the form of reduced prices or

¹ Adam Smith : *Wealth of Nations*, Book I, Chapter I.

dividends on the amount of his purchases. Denmark and Holland have made great advances in the co-operative marketing of farm and dairy produce; but in general, co-operation among producers has not achieved marked success.

Centripetal Forces.

The tendency to concentration in modern industrial and commercial life is another aspect of the specialization which has attended the enlargement of the business unit since the age of mechanical invention. Commerce, industry, and credit obey a centripetal impulse. The woollen manufacture once carried on in practically every rustic cottage, has now become massed into factories in Yorkshire, the West of England, and the Scottish lowlands. Shipbuilding, which at one time was a staple employment in every fishing village along the coast, is now concentrated in a few great shipyards within reach of coal and iron deposits, and having deep-water access to the open sea. The business of finance shows the same trend. The banks, instead of each maintaining a specie reserve, throw this responsibility upon the Bank of England, so that the whole structure of credit rests upon a narrow foundation.

Centripetal forces are crowding the population into towns, and crowding these towns into restricted areas. It is estimated that one-third of the population of the United Kingdom now lives in the great towns, that is, those numbering over 100,000 inhabitants. In New South Wales and Victoria, the proportion of the population living in such towns is 40 per cent. For the whole of Europe the ratio has increased since the middle of the nineteenth century from 4 to 10 per cent. In England and Wales the population of all urban areas is now 78 per cent, compared with 50 per cent

in 1851, and about 30 per cent in 1801. The movement of population in the United States is similar. Between 1880 and 1910 the urban percentage grew from 29 to 46 per cent.

The same concentrative forces are at work in labour organization. For the growth of large industrial populations has made it possible for workers to combine easily for the purpose of securing improved conditions. Thus, when the interests of capital and labour have conflicted, industrial war has been waged between two disciplined armies, each with growing unity of command and massed resources. The increase in size of the capital unit in business and manufacture, and the decline in the number of separate establishments, due to amalgamation, are paralleled in the history of trade unions. There the tendency has been towards the sinking of the several minor interests of special groups in the larger interest of the whole industry.

It has been pointed out that the fiscal side of our history is a record of the same kind. "At the beginning of the nineteenth century we obtained our revenue from the taxation of some fifteen hundred articles, but each of the great steps forward has meant that we have thrown the weight of our revenue upon fewer goods and sources of supply. We have reduced the tariff from fifteen hundred to about twenty articles, and the powerfulness of English finance is that all the structure depends upon a few very strong pillars."¹ The tendency of tax policy has been to raise an increasing proportion of the revenue by concentration on a few articles of almost universal consumption, such as tea and tobacco.

Horizontal and Vertical Combination.

Within the limits of each industry there has been

¹ Macgregor : *Evolution of Industry*, page 44.

a powerful movement in the direction of unified control, by the amalgamation of competing firms on a horizontal level, or by the development of industry in a vertical direction through the addition of new functions preparatory to or consequent upon the original. Examples of horizontal combination may be studied in the history of banking, railway, and steamship company fusions, the growth of "multiple" stores, the "kartel" in Germany, and the "trust" in America. Illustrations of vertical combination may be found in the history of certain industries (e.g. shipbuilding, cotton, soap), where firms have secured a controlling interest in the sources of their raw material, or where firms established for manufacturing have developed in addition the commercial function, disposing of their products (e.g. margarine, beer in "tied houses") direct to the consumer without the intervention of middlemen. Sometimes a large manufacturing concern acquires a fleet of ships or a railway, and so secures for itself the profits of transport. During the last century the process of amalgamation has reduced the number of banks in London from sixty-two down to the existing "Big Five" joint stock banks, and four or five private banks. The fusion of competing railway companies affords a further illustration of this tendency.

Markets and Prices.

The same general tendency is observed in the concentration of markets and the stabilizing of prices. Early commerce was carried on chiefly in village markets and occasional fairs. Prices depended wholly on local conditions of demand and supply, and therefore ranged between wide limits. The nineteenth century has seen the rise of produce markets, e.g. the Baltic Exchange and Mark Lane in London for wheat; the Smithfield Market for meat, poultry, and game;

Billingsgate for fish ; Covent Garden for fruit and flowers. In the provinces there are produce markets for cotton, wool, coal, steel, tinplate, leather, and so forth. Such markets facilitate dealing in commodities capable of standardization. Central markets have sprung up also for dealing in stocks and shares. On the London Stock Exchange, the Paris Bourse, and the Wall Street of New York, buyers and sellers of Government stock or industrial shares congregate and determine the price levels that shall rule in the entire world of finance. A fractional change may be sufficient to divert a cargo, already on the high seas, from one continent to another, or to cause a farmer to plough up sown land and resow for a different crop. In these circumstances prices are continually tending to reach a uniform level, allowing only for differences in cost of transport between producer and consumer.

Economy of Labour and Capital.

The co-operation of many specialists and the concentration of effort has resulted in a great economy of human and material resources. The saving of heavy manual labour, which resulted from mechanical invention, has enabled men to cultivate their higher intelligence, and to carry invention into unimagined regions. The economy of human effort has been progressive. The same expenditure of labour will to-day support a standard of living for all far beyond that which was within the reach of any but the richest man in an earlier epoch.

There is also an economy in material things. The lavish profusion of nature in fertile regions of the earth is no longer wasted, but ministers effectually to human needs. Relatively to the whole, a smaller quantity of the world's goods is locked up in warehouses or withheld from consumption during transit.

Intensive cultivation has enabled the farmer to cause two blades of grass to grow where formerly there was but one. Not only so, but the uses of the land itself have become specialized and have yielded equivalent economies. Land for building, arable, pasture, forest, sport, and many other purposes is put to intensive use, so that the return it gives in the form of wealth or welfare is vastly increased. A large proportion of the world's capital, too, has become fixed and specialized. That is to say, it cannot easily be rendered mobile and applied to new uses. Capital sunk in an oil-tank ship is irrevocable; it is definitely committed to this one form of service. But at the same time it finds in this special application its most effectual use.

Standardization.

The establishment of standards is the inevitable outcome of industry organized for large-scale production on a machine basis. Standardization follows naturally upon movements towards specialization of function and concentration of effort in manufacture and commerce. In fact, the chief gain resulting from such tendencies is the establishment of recognized scales of measurement. Design, quality, speed, size, weight, and so forth are in modern commerce specified according to generally accepted units. With the aid of a mere index number or symbol Manitoba wheat, Danish butter, or Indian cotton is purchased by speculators in London without even the necessity of inspecting a sample. Grading has been developed into an exact science, each commodity having its own symbolic nomenclature, as universal in use as the terminology of chemistry. This is true not only of the finished products of industry, but also of its moving forces. Steam-coal is standardized according to its capacity for producing a given pressure of steam.

The heating power of coal-gas is measured in therms. In a similar way water-power, electricity, fuel-oil are bought and sold and utilized in units which science has suggested, and which custom or government regulation has prescribed. Modern engineering has been made possible only by the standardization of tools and machine units. Without the device of the "spare part," the motor-car could never have become universal.

Standardization enters further into the organization of commercial life. For every kind of business there are recognized methods and customary forms of procedure. The development of produce markets has contributed greatly to the creation of such standards, just as the association of professional men (for example, lawyers and architects) results in conformity to uniform scales of fees, and obedience to principles of professional etiquette. The law will recognize a contract as fair or unconscionable according to the practice of the trade, and the rate of profit which custom has sanctioned as reasonable. Not only prices, but also the methods of payment, the periods allowed for delivery of goods and settlement of accounts, days of grace, discount rates, brokerage, commission and so forth, are matters of convention. The tendency towards uniformity passes down even into the phraseology of business correspondence, the arrangement of typewriter keyboards, and the dimensions of index cards.

Commerce and industry have undoubtedly benefited by the adoption of such widely recognized standards. The use of them economizes energy by making actions habitual and subconscious. There would be little time for business, if the terms of every separate transaction had to be defined *de novo*. It is always assumed that business contracts are entered into subject to the universal practices of the trade unless otherwise

specified. When an exporter charters a ship which is scheduled *At Lloyd's*, he pays insurance on his cargo on a corresponding scale of premium charges. The ship is manned by officers who are certified by the Board of Trade as having attained a recognized standard of physical fitness and proficiency in seamanship. The crew is engaged on standard wage terms, agreed upon between associations of shipowners and the seamen's unions. The voyage proceeds along defined routes, largely the subject of international agreement. If the ship arrive late at her destination, the importer charges demurrage at a standard rate. From first to last those who are conducting the enterprise have to conform to standards which are either statutory or customary.

The general effect of this uniformity of practice is to introduce into modern commerce a high degree of certainty and punctuality. Its activities become increasingly automatic in character. The element of chance has been almost eliminated, and although there is always the "human factor" to be reckoned with, it may be said that modern commerce functions with the regularity of clockwork. The post, the railway train, the steamship, the aeroplane, all work to time-tables, and on the whole succeed marvellously in keeping to scheduled times. We order our whole lives on the assumption that this will continue to be so.

Similarly, the merchant, in laying his plans for the future, can estimate with a remarkable degree of accuracy, having the information which reaches him over the cables or through the newspapers, what the future course of production will be ; he can gauge the level of prices, and envisage the changes in demand ; he can determine to a nicety how much of a commodity a given market will absorb. His working chart is the

graph, which enables him to judge of tendencies and to watch the operation of the "law of averages." If the Chancellor of the Exchequer undertakes fresh Government borrowing, the information at his disposal will enable him to fix an issue price for stock which will bring him as much money as he requires, without burdening the taxpayer with heavier interest charges than the situation demands.

Equalization of Risk.

In an earlier and less complex social organization economic disasters were usually of the kind attributed to an "Act of God." Such calamities might involve the people of one district in utter ruin, while their neighbours were unaffected. Before the railway era in India, the consequences of a local failure of crops were felt by a few with unrelieved severity. But the interdependence of the units constituting modern commercial society has resulted in a sharing of risks, so that, however great the disturbances produced, let us say, by a war or other disaster of world magnitude, restoration of equilibrium takes place quickly and surely.

The practice of insurance has become universal and enters now into every detail of commercial life. The beginnings of insurance against the three major risks of death, fire, and shipwreck may be found in the early eighteenth century, but during more recent years the principle of spreading losses has had a much wider application. Sickness and personal accidents, invalidity, thefts, employers' liability, loss of rent, damage by storm and tempest, loss of jewellery, are among the commonest risks which may be provided against by the payment of small premiums. The pianoforte virtuoso insures his hands; the cinema "star" her eyes. A hospital fund committee insures against the risk of a wet "flag day." Rates are quoted by insurance

brokers to cover losses due to income tax or other changes in the national Budget.

The companies which have been formed to undertake the business of insurance have grown to be among the largest financial corporations in the world. A considerable proportion of the enormous sums which they collect in premium payments become available for general investment, and they perform a function in the organization of commerce which admirably supplements that of the banks.

Growth of Capital.

When we speak of an industry as organized on a capitalistic basis, we mean that the element of labour in the cost of production is relatively small compared with the element of capital. A ship, for example, is a very costly instrument of production, and its labour bill is small compared with the payments which have to be made to those who have risked the initial outlay necessary to produce it. It would require many years' wages of an ocean liner's crew to purchase the ship. At the other end of the scale is, say, the sewing machine or the typewriter, which can be purchased with wages earned in a month by the worker who uses it. The general effect of the technical progress made in the age of the Industrial Revolution, was to develop the material factors in production much faster than the human. What is true of industry applies equally to commerce. In every type of business, the wage bill has tended to decrease relatively to the amount of fixed or working capital.

The change was gradual. It resulted from the fact that merchants and manufacturers were becoming dependent for their markets and for their materials on distant countries. At first the savings or credit of a single person were sufficient to make him owner of a

cargo or a machine. As ships grew in size, and machines were assembled by scores or hundreds into factories, the combined resources of partners were needed to supply the requisite capital. Then the industry outgrew even this form of organization, and for the greater projects capital had to be drawn from hundreds or thousands of investors.¹

To enable this to be done, a new technique of finance had to be invented. Joint stock association assumed forms better adapted to modern needs. Banking was developed, and credit operations on an extensive scale were made possible by means of the cheque system and other cognate devices. Accumulated wealth, rendered mobile by such means, has passed readily into the hands of those best able to put it to productive uses, and has thereby brought about further additions to the stock of material wealth.

An estimate by Sir Robert Giffen² shows the growth of national capital in England from 1690 to 1800 in the following table—

Year.	Population.	Property.	Property per Head.
	Millions.	Million £	£
1690	5½	320	58
1720	6½	370	57
1750	7	500	71
1800	9	1,500	167

It will be seen that in the second half of the eighteenth century the rate of increase was greatly accelerated. But the following century saw an even greater rapidity in capital accumulation. A further estimate of the

¹ It was recently reported that the share capital of the London, Midland and Scottish Railway was divided up among about half a million investors.

² See Porter : *Progress of the Nation*, Ed. Hirst, page 696.

nation's capital in 1865 and succeeding years is as follows¹—

Year.	Population.	Property.	Per Head of Population.
	Millions.	Million £	£
1865	21	6,113	291
1875	24½	8,548	345
1885	27½	10,037	365
1895	30½	10,663	349 ²
1905	34	13,036	384

The greater part of this wealth is sunk in houses, land, railways, ships, factories, mines, trading stocks, furniture, and so forth. A relatively small amount exists as currency, or is devoted to other non-productive uses. Before the war the annual national income was estimated at about £2,400 millions.

Speculation.

In one sense speculation enters into every commercial transaction, since buyers and sellers are always concerned with the balancing of advantages. Every exchange involves a weighing of the future against the present. But the term "speculation," as used to describe a prominent factor in modern commerce, implies that the element of risk is predominant. When goods are made "to order," and the relation of producer and consumer is personal and immediate, the element of risk is usually negligible. But with every interposition of middlemen, involving the loss of direct relationship, the difficulty of equating supply to demand increases. Still more is this so when production

¹ Porter : *Progress of the Nation*, page 703.

² A fall in general price levels, culminating in 1896, accounts for this apparent retardation of wealth accumulation.

is for a problematical future demand, which at the moment does not exist in any degree (for example, "fashion" goods).

Though there are undoubtedly certain kinds of speculation which are indistinguishable from pure gambling, and represent no beneficent function in commerce, it may be said that commercial speculation of the legitimate kind does, on the whole, render a useful service by steadying the market and stabilizing prices. As this statement appears to involve a paradox, it will be well to state one or two concrete instances.

A manufacturer wishes to build a new factory. He deposits securities with a bank which, guided by its estimate of the probable course of events, places an agreed sum to his credit. Next, he invites tenders from builders and enters into a contract. The manufacturer knows his maximum liability and can lay his plans accordingly. But the contractor, whose tender has been accepted, will have to go on making purchases of building materials for several months ahead, and during this time it is possible that price levels will alter to his disadvantage. To safeguard himself he enters into sub-contracts with timber merchants and manufacturers of brick, cement, iron girders, glass, and so forth. Each of these, in turn, having entered into an agreement to provide goods in certain quantities and at specified intervals, must protect himself from possible loss by purchasing raw material for future delivery at fixed prices.

The result of this ramification of contracts and sub-contracts is to spread the risk over so many agents that it does not fall with undue severity on any one. Although everyone is buying goods which are not yet in existence, and services at rates which are liable to change, each parcel of risk is finally shouldered by the agent whose expert knowledge marks him out as the

fittest to bear it. In this way the total risk to society, as well as the individual share of it, is minimized.

Again, consider the Canadian farmer who has wheat to sell. If the demand for immediate consumption only were considered, the supply forthcoming simultaneously from thousands of farms, in addition to his own, would be so far in excess of the market that his crop would command no price at all, just at a time when he had heavy outgoings. But in fact the demand is steady throughout the year, and it is to the advantage of everyone that the price should be averaged so that there should be no variation in the level before and after the harvest. The wheat is therefore sold to millers for future delivery, and is in the meantime stored in barns or elevators. In this way the capital of the farmer is set free once more, and he can use it as he pleases. But the miller who has purchased in September wheat for January delivery has by so doing accepted a risk, for prices may, on account of bumper crops in the Argentine or elsewhere, by then have fallen considerably below the figure at which he has already bought. Accordingly, at the moment that he *buys* Canadian wheat for January delivery, he *sells* an equal quantity for delivery at about the same time. To fulfil this contract of sale he will be obliged to purchase wheat in January and deliver it according to contract. But if the price should fall in the late months of the year, the loss he suffers on his original contract will be cancelled by his gain on the second bargain. And, similarly, if the price should rise, his loss on the new purchase will cancel the profit on the original sale. The net result is that in either event the miller neither gains nor loses. His operations in "futures" have, in fact, more of the element of insurance than of gambling. The risk is in effect partitioned out among a large number of dealers in the wheat market, and since the

hazards are of opposite kinds, for one a fall, and for another a rise in price, they tend to cancel out. Thus "hedging" or speculative dealing in futures, helps to keep price variations within narrow limits, and exerts a steady influence on markets.

All the great staples of commerce have now organized markets in which brokers buy and sell commodities which do not even exist—cotton which has not yet been sown, and the carcasses or fleeces of animals yet unborn. By so doing, the course of future production is greatly influenced, and the system at least provides that labour and capital shall be guided into channels which will yield what the consumer requires, and ensures that there shall be a delicate adjustment between production and consumption.

Ebb and Flow in Commerce.

The recurrence of periods of ebb and flow in industrial and business activity is a striking feature of modern commerce. The historical sequence of such crises during the last century is described in a later chapter, and it is sufficient at this stage to refer to the characteristic in general terms. Clear evidence of the ebb and flow is afforded by statistical tables showing fluctuations in the volume of export and import trade, the bank rate, the business transacted in the bank clearing houses, yield of income tax, bankruptcies, new capital issues, railway mile-ton traffic, tobacco consumption, and so forth, and corroborative evidence may be found in "social" statistics setting forth marriage rates, extent of pauperism, and prevalence of crime.

In every analysis of the causes of depression, it is noticeable that over-production is put in the first place. This is the predisposing cause of the fall of prices which marks every period of decline, but is itself the

effect of an earlier cause, viz., a high level of prices. This, in its turn, is the consequence of a surplus of currency over the legitimate requirements of general trade. Whatever the circumstance which creates this surplus, whether an influx of specie or the undue multiplication of credit instruments (bank notes, bills, cheques, currency notes) following an error of judgment on the part of governments, banks or discount houses, the consequences are alike.

In a time of inflation prices in general tend to rise faster than the costs of production and the prospect of larger profits stimulates enterprise, with the result that speculators find it easy to attract dormant capital into industry. New factories are built, and new and better machinery installed, so that the speed of production is accelerated. Traders increase their stocks in the expectation that high prices will continue, until finally they are able to stock no more. But no change having occurred in the purchasing power of the masses (for even if employment be good and wages high, the increased earnings are neutralized by the higher level of general prices), the stocks tend to remain on the shelves of the wholesale man and the retailer. Orders for future delivery are, therefore, cancelled or reduced, the factory workers are put on "short time," and accumulated stocks are disposed of at lower prices. With the produce market in this state, the market for money and securities becomes unusually sensitive. As shares fall in value, holders are disposed to cut their losses and sellers become more numerous than buyers. Those with floating capital to invest hold back from industrial investments, and either deposit their money in the banks or purchase Government securities. In either event, money is withdrawn from circulation and credit is restricted, so that prices tend to fall still farther.

Cause and effect having once completed the round, the cycle begins a new revolution. For now the large accumulations of money awaiting investment embolden the professional company promoter to resume operations, and induce the banker (who must find some use for the money deposited with him) to add to the aggregate of circulating medium by allowing traders to draw cheques to the amount of a stated credit. Thus production is once again stimulated and the same results follow.

The history of commercial expansion in the last two centuries is largely a history of this ebb and flow. Its incidents may well be likened to the movements of an incoming tide which, although every flow is regularly succeeded by an ebb, steadily creeps up the shore, Notwithstanding intervals of inactivity and decline, decennial trade activity has carried commerce to higher and higher levels. The barriers which used to separate one economic territory from another have been gradually submerged, and on the tide of commerce the commodities of the most distant regions now pass and repass in a continuous and frictionless motion.

Sensitiveness.

Most international exchange of commodities is now effected on a basis of credit,¹ balances being in general paid by the handing over of securities to the creditor nation. With the opening up of new productive areas overseas, the accumulated capital of the Old World finds an outlet for investment, the profits of which are for the most part reinvested in a similar way. Thus there has come into existence a vast organization of cosmopolitan credit, linking up factories, plantations, railways, ships and harbours, farms, mines, banks,

¹ It is calculated that 80 per cent of the world's wheat crop is purchased each year with borrowed money.

shops, and markets all over the world into a complicated system of inter-related parts.

As the economic life of the world grows in complexity, and the units of society become more inter-dependent, there is quicker reaction to stimulus, and shocks sustained by one member are quickly transmitted through the whole structure. The phenomenon of a rhythmical ebb and flow of trade is, therefore, observed simultaneously in the most distant places, and no corner of the world market, however remote, can expect to be totally exempt from the consequences of disturbances at the central points. Nevertheless, there is a greater sensitiveness in some parts than in others. Wherever the movement away from a natural economy based on agriculture has been going on for a long time, and a money economy has come into existence, with a large employment of credit instruments, then shocks are powerfully felt, and there is an instant responsiveness to every external influence. But where economic society is built up on a self-sufficing system of agriculture, where exchange approximates to barter, and where wages and rent are paid in services, then the organism is much less sensitive to shock. Like the parts of an earth-worm bisected by a garden spade, each separate social group is capable of independent life, and isolation for such a community does not necessarily mean serious retrogression in the economic scale.

Competition.

The development of means of cheap and rapid communication and transport is producing an ever nearer approximation to a system of perfect competition, wherein every buyer and seller has equal opportunities of ascertaining the conditions affecting demand and supply, and equilibrium in the market is therefore quickly established. The competition of producers on

the one hand, and of consumers on the other, results on the whole in keeping quantities and qualities and prices in close relation. As monopoly, whether artificially created or arising from natural causes, gives place to open competition, profits tend to diminish, and quality improves at each price level. When transport was still undeveloped, the price level in a given place was determined by the quantity immediately available at that spot. Abundance or scarcity in distant places did not enter into the question. But in modern commerce the fuller knowledge of quantities available or required in other continents, and the ease and cheapness of transportation have produced a situation in which the difference in price of a commodity in two markets will hardly exceed the cost of carriage between the one and the other.

It must not be overlooked that there is much apparent competition in modern commerce which is really disguised monopoly. It conduces to public confidence if two soaps appear to compete for favour, even though they be manufactured by firms united in a trust. But even in such an event benefits may accrue to the consumer from the friendly rivalry of the two allied firms, each striving to outdo the other in achieving economies in production, and in setting up a more perfect organization for production and distribution.

The forces of competition in the long run determine the forms of business organization that shall survive. Every displacement of an inferior industrial and commercial system by a better has been due to the fact that the latter has been able to undersell its older rival. What is true of systems is here true also of individuals. On the whole, competition helps to remove the inefficient and to leave the conduct of business in the hands of those better fitted by training and character to undertake it. Further, competition

is an impersonal arbiter determining what goods shall be produced, in what proportions, and in what qualities. It controls the direction of flow of new investments into industry, so that those undertakings which promise to make capital most fruitful shall have it in abundance, while those which are unable to utilize it to good advantage must decline and wither for lack of it.

Against the beneficent forces of competition, it is necessary to balance certain consequences of its unfettered action which are destructive of human welfare. For the final criterion of success in competitive business is ability to earn profits, and there is no room for ethical judgments on the character of the trade by which the profits are secured. The sale of firearms and spirits to uncivilized peoples may be highly profitable, but clearly merits the condemnation of good men. It is not so clear whether the production of clothing made of shoddy at a very small margin of profit is a matter calling for a moral judgment, but it is at least doubtful whether competition is here ministering to welfare. Provided that there is no transgression of the law, the rule is *caveat emptor*. If buyers were as expert in judging quality as manufacturers and dealers are, there would be no hardship in this. But adulteration can often be so skilfully concealed that the purchaser is helplessly outwitted even where there is no positive misrepresentation.

Advertisement.

The advances that have been made in mass production have been paralleled by an equal advance in the organization of distribution. Joint stock enterprise in retail business came rather later than in manufacture or wholesale dealing, and dates from about 1850 when the earliest department stores were established experimentally in Paris. But the great extension of the

“universal providers,” the “multiple shops,” and the “mail order” business took place in the last years of the nineteenth century, and was accompanied by extraordinary activity in advertising. For producers were no longer content to supply a demand that was known already to exist. To enable the economies of large-scale production to be reaped, it was essential that this demand should be vastly enlarged, or that a new demand should be stimulated where previously there was none.

The chief use of modern advertisement is to suggest to people by bold reiteration that they need things of which, in the absence of this suggestion, they would not feel the want. Some of this advertisement, especially that which is competitive, is socially wasteful, since the cost of it has to be added to the price which the consumer has to pay; but much of it, on the other hand, is productive, inasmuch as it makes possible the enlargement of the business unit to the size which allows of the employment of specialized machinery, labour, and management.

It is commonly said that the richest men in commerce to-day are those who have spent most in advertising, and a study of mass psychology will explain why this is so. A commodity of commerce ultimately becomes known by the name of the brand which is oftenest associated with it. Constant reiteration causes the trade name to rise instantaneously to the surface of memory when the article is suggested. Not only so, but frequently the special trade name becomes in time the name by which the article¹ is called in common speech, and every retail tradesman knows that nine-tenths of his customers specify proprietary articles or

¹ Examples of great antiquity are “damask” (from Damascus), “currants” (from Corinth), “worsted” (from Worsted in Norfolk). In our own time the names of certain motor-cars, meat extracts, razors, and so forth have become almost generic terms.

“specialities” when making their purchases. The *naïveté* of the old lady who insisted on having a particular brand of marmalade, “because she had seen it so well spoken of in the advertisements,” differs after all only in degree from the auto-suggestion against which few of us are proof.

Finally, the latest age has seen not only an enormous extension, but vastly improved methods, of advertising. The fine arts have been pressed into the service, and the standard of technique has advanced to such a degree that the advertisements of reputable firms are no longer an offence to taste and aesthetic sensibility. There is a greater subtlety about modern advertising, inasmuch as it produces its effects less by exaggerated and categorical assertion than by indirect suggestion. When an article of commerce is recommended in advertisements which combine beauty, charm, wit, and humour with moderation in statement, a generally favourable attitude of mind is induced.

It has already been pointed out that with the spread of joint stock organization, much of modern business has passed into an “impersonal” stage. The buyer is no longer in direct contact with the real seller. The “firm” is an abstraction. Advertising similarly shows a tendency to conceal the sources of its appeal. The general injunction, “Eat more fruit,” which one sees in a tramcar, seems to emanate from nobody in particular. Nevertheless, it is safe to assume that there are commercial motives somewhere in the background. Sometimes concealment goes even beyond this, and it may well be that many of the apparently innocent articles and items of information in a popular newspaper or “cinema gazette,” have been prompted by business interests desirous of guiding consumption into particular channels.

Direct Trading.

A feature of the past twenty years is the steady disappearance of the middleman. In the business of distribution the wholesale merchant is losing his place. Goods more often pass "direct from the factory to the consumer" through the retail shop. This is especially true of advertised food products and other specialities of home manufacture. The broker and the wholesale merchant are still necessary for the handling of imported produce: for example, butter, cheese, eggs, wheat. On the other hand, there has been a remarkable growth in the number of commercial travellers, travelling salesmen and agents, earning not profits, but salaries and commissions. In this change motor transport is playing a large part. Thousands of our villages are being served by "shops on wheels."

State Control.

Commerce, like every other human activity, bears the stamp of the average moral standard prevailing at any given time. But this moral standard is continually advancing under the influence of education, and forms of enterprise once considered permissible sometimes fall under censure. When public opinion crystallizes, it is not long before the law steps in to ban what the moral judgment of the community has already condemned. A century ago the slave trade, having for some time before become an offence to the public conscience, was legally abolished. Recently in the United States of America, the sale of alcoholic beverages has been declared illegal.

But State control is exercised not only through sweeping prohibitions, but also through a multitude of the most detailed regulations governing every function of economic life. Through customs tariffs it controls imports and exports, often placing the interests

of the nation as a whole above those of merchants. Through general taxation, the State may encourage or discourage certain forms of consumption. It may use public funds for direct trading. It may enter into commercial treaties with foreign countries. The law may determine the wages of labour, the prices of commodities, the dividend which may be paid on certain shares, and declare what is a reasonable profit in a commercial transaction.

The State further attempts to secure square dealing by insisting on the use of standard weights and measures, and by appointing officials to keep a watchful eye on adulterations and unfair practices. The State ordains that certain goods must be branded (for example, coffee containing chicory, and margarine), others sold only in certain receptacles (for example, liquid poisons). The State enters as a third partner into almost every commercial contract by requiring the payment of a stamp duty to legalize the bargain.

There is legislation in the interests of all classes of workers, limiting hours of labour, providing for sickness, old age, and unemployment insurance, with compensation for accidents, and insisting on certain standards of working conditions: light, ventilation, sanitation, and so forth. To safeguard traders and inventors in their legitimate interests, there are registered trade-marks and patents. Associations for purposes of trade, such as joint stock companies or partnerships, have to be registered according to certain forms without which they cannot enjoy the protection of the law. The State is also concerned with the education of the people, and provides commercial training out of public funds for any who desire to avail themselves of it. The influence of the State to-day, in fact, pervades every part of commercial life to a degree undreamt of a few generations ago.

Welfare Work and Commercial Idealism.

While the State has in the interests of employed workpeople prescribed certain minimum requirements, a large number of employers have voluntarily gone far beyond these, and have established welfare schemes of great importance. The "garden city" movement has developed in close relation to these schemes, most of which include the provision of rest rooms, canteens, libraries, club rooms, facilities for open-air sports, clinics, and so forth, each contributing to the health and happiness of the members of the staff. Moreover, a direct interest in the prosperity of the firm is often fostered by means of profit-sharing or co-partnership schemes, free insurance, and staff pensions. The example set by the most enlightened employers in such matters is gradually raising the whole standard of industrial and commercial employment, and has already reacted on legislation. The Employers' Liability Act of 1880, the Workmen's Compensation Act of 1897, the National Health Insurance Act of 1911, the Unemployment Insurance Act of 1920, and the grant of Widows' Pensions in 1926, embody much of the experience of those employers who have voluntarily assumed similar obligations towards their workpeople.

The exercise of food control by the State during the war years, and the regulation of prices and profits focused the attention of consumers on the methods of retail distributors, and increased publicity has probably led to a higher average level of commercial morality during the past few years. Public opinion is demanding that the standard of the best shall become the norm, and drastic action by consumers' councils, backed by the threat of statutory penalties, is eliminating the fraud and profiteering of the worst. The leaven of idealism which is gradually spread through industry and commerce has produced in recent years many

important movements, among which the already universal rotarian movement may be especially mentioned. This is of particular significance in the history of commerce, because the spread of the rotaries marks the transition to a new conception of business as a profession, with a code of honour and etiquette, a sense of vocation, and an ideal of social service of its own, not inferior to those of any of the liberal callings, but immeasurably superior to those of the days when "to buy in the cheapest market and to sell in the dearest" was the first and only rule of commercial conduct.

COMMERCE AND WAR

The question may be asked whether modern commerce has in general promoted peace rather than war. It would appear at first sight that in so far as international exchange is profitable to both parties, there is an economic motive making for the continuance of peaceful relations. This was and is a fundamental belief of Free Traders. But the facts of history in the last hundred years give us no clear guidance. International disputes have taken place regarding the control of sea routes useful for commerce; one of the causes of the Russo-Japanese War was the desire of Russia, that is to say, of Russian traders, to acquire a "warm-water port" in the East. In the north her access to the open sea was blocked by ice, and in the south it was liable to be cut off by any power controlling the Dardanelles. In this instance commercial expansion brought about armed conflict.

The ambitions of the commercial classes have forced governments to seek to acquire colonial territories, which should supply home industry with raw material and create a market for the finished product. Frequently governments have been pressed to support with a show of force traders involved in commercial

disputes in foreign countries. The Burmese War of 1852 arose out of grievances of British and Indian traders against the Governor of Rangoon. The Chinese Wars of 1838 and 1857 were fought to secure satisfaction for merchants whose property had been seized. The Boer War of 1899 safeguarded British interests in the gold mines of the Rand.

International loans (such as those raised by Egypt in France and Britain) have led to a condition of affairs in which the creditor nations have been compelled to step in and to assume responsibility for government. Political alliances, first arising out of the desire for military support, have sometimes made deeper and smoother the channel of trade between two countries. Before the Great War, France and Russia were closely linked in this way, for the latter had borrowed many millions of French capital. The menace of this military and economic alliance of powers on her eastern and western flanks may have been a potent cause disposing Germany to war in 1914. Further, the manufacture of munitions creates interests which favour war or the rumours of war. It may be said on the whole that the strongest interests governing the foreign policy of any modern industrial country are commercial and financial. If wars are not directly made by financiers, these are so masterful in guiding the lines of policy that few modern wars can be successfully undertaken without the willing co-operation of "high finance."

Influence of War on Commerce.

The question may be considered from another angle. Can war ever promote general commerce? It has been contended by some economists that although war leads to an enormous unproductive consumption of material wealth, this expense is incurred only once for all, and that, on the other hand, efforts made to provide

armies with equipment and munitions may stimulate inventors and manufacturers to extraordinary exertions. The devising of new and better processes and the discovery of efficient substitutes may well lead to a permanent addition to the productive power of a nation. Germany, during the Great War, learned how to supply the lack of certain artificial manures by fixing the nitrogenous constituent of air. England found in her necessity that the mountains of shale, thrown out as waste product from her mines and furnaces, contained oil and other chemical substances of great commercial value. It has been stated that the recent depression in the engineering trade is to a large extent due to the multiplication of producing plant, which, as long as there was a demand for munitions, found ample employment, but when the market contracted was left idle. This is an instance of an increase in productive power, caused by war demand, to an extent even greater than the normal requirements of trade on a peace basis.

The inflation of currency, which ordinarily occurs when governments try to finance war, has a reaction on commerce. For the illusion of increased spending power leads to reckless expenditure, and to a general rise in the standard of consumption among all except those who are dependent on fixed incomes, such as are provided by pensions, annuities and investments. We have already seen what an important part is played by the exchanges. A country with a depreciated currency is a cheap market for buyers, but gives little encouragement to sellers. As long as the commerce of Germany was conducted on paper money her manufacturers were able to produce and export goods at prices below the levels of the world market. But the transformation of the currency in 1924 from the paper mark to the gold mark basis resulted in an

increase in prices and rendered foreign sales more difficult.

The payment of war indemnities is calculated to cause profound disturbances in commercial relations. For to the extent that they are paid in gold, they lead to an excess of circulating medium in the country which receives payment. The surplus of specie produces a rise in general prices and producing costs, which increases the difficulty of selling in foreign markets, and handicaps those industries which produce goods for export trade. On the other hand, the loss of gold causes prices to fall in the country which pays the indemnity, and consequently foreign buyers are attracted. An illustration may be found in the depression of German industry and the prosperity of French industry in the years following the payment of the indemnity for the Franco-Prussian War. When an indemnity is paid in goods or services, similar consequences follow. For the creditor nation then has to face the prospect of widespread unemployment, caused by the inflow of goods which might otherwise have been produced by home workers.

CHAPTER XIII

BANKING, CREDIT, AND CRISES

THE whole question of trade fluctuations is so closely bound up with the organization of modern credit, that it will be well to consider first the chief landmarks in the history of banking and currency.

Functions of Banking.

The functions of a bank may be summed up in brief as: (1) the custody of deposits; (2) the lending of money; (3) money changing; (4) the issue of notes or other forms of paper currency to supplement and economize the use of the precious metals; (5) the transfer of securities; (6) the discounting of bills. These functions have not equal importance in all banking systems, and a study of the history of any bank will show how modifications have come about in response to the needs of the changing structure of commerce.

Money Changing.

It is probable that paper money was current in China two thousand years ago, and it is certain that a rudimentary form of banking (including money changing and the custody of precious metals) was practised in ancient Babylon, Athens and Rome. But the continuous history of banking begins with the revival of commerce in Italy in the twelfth century, when the spread of a money economy led to a more extensive use of metallic currency. Wherever there was any considerable amount of foreign trade, the money-changer's knowledge and skill were required for estimating the exchangeable value of the coins of

different countries, and for computing the real worth of debased and clipped currencies.

The exchanging of money brought by Crusaders of the North into that which was current in the South of Europe no doubt added to the gains which encouraged the early development of the business of finance in the city states of Italy. The original function of the Bank of Amsterdam may be accounted for in a similar way. The foreign trade of the Hanseatic merchants involved the use of many currencies, for credit instruments were little known and practically all transactions were carried on with bullion. The prerogative of exchanging was regarded as pertaining to the State in the same way as the minting of money ; but in return for equivalent services, these and other prerogatives might be farmed out to private merchants, such as those who established the Bank of Amsterdam. To facilitate bargains between foreign merchants, the bankers took any currency at its intrinsic worth, and issued in exchange special coins (known as " bank money "). These, on account of their soundness, circulated at a premium known as the " agio." The Bank kept back a certain proportion for defraying the expense of recoinage, and the other necessary costs of management.

Deposit Banking.

In Venice, the earliest bank was established in 1157 as an organ of State. Forced loans having been raised to meet the expenses of naval wars, public offices were opened where Government stock might be bought and sold, and where interest payments might be made to the holders. These offices afterwards proved useful in the floating of further loans. The Bank of Venice by the fourteenth century had developed a considerable business in private deposit accounts, but made no advances to private persons and issued no notes.

Even so, the necessities of the Government and its failure to meet interest liabilities forced the Bank occasionally to suspend payments to depositors.

Issue of Paper Money and Bank Credit.

The next stage in the evolution of banking was the issue of a paper currency. The Bank of Sweden, established in 1656, issued the first bank note two years later. It was really a certificate of deposit of bullion; but it was transferable and also divisible. The use of the certificate of deposit made it easy to transfer value cheaply and safely from one place to another. There was no risk of loss by theft or shipwreck, and there was no loss due to the expense of recoinage.

From this stage it was an easy step to the lending of money to private persons for purposes of trading. For as the use of paper money became more general, the experience of bankers showed that the average demand for repayments of deposits of coin or bullion hardly ever exceeded a certain fraction of the total deposits, and the balance (allowing a margin for emergencies) might safely be lent to those who were prepared to pay for the accommodation. A bank which loaned money at interest could even afford to pay interest (at a lower rate) on deposits. The larger the circulation of paper instruments (bank notes, bills of exchange, cheques), the larger the profit to be made by advances of credit to traders and manufacturers.

The Goldsmiths and Discount Banking.

Until 1640 the merchants of London deposited their valuables in the Tower, where the mint was situated. But in that year Charles I, driven to desperation by lack of funds, seized bullion to the

value of £130,000, the property of city merchants. The money was at length restored, but not before confidence had been completely shaken. During the Civil War the practice of placing gold and silver coin, plate, and ornaments with the goldsmiths for safe keeping became general among merchants and country gentlemen. The goldsmiths profited by sorting out coined money, setting aside heavy coins for foreign purchases, and retaining light ones for home payments. They paid at first no interest on deposits, nor exacted any fees for their services. But when the sums deposited with them had grown very large, they began to use a proportion of them in the discounting of bills and in short-term advances to traders. The receipts given for deposits, known as "tallies, bank-bills, and goldsmiths' notes," began to supplement the metallic currency as a medium of exchange in the same way as the certificates of deposit issued by the Bank of Amsterdam.

Suspension of Payments.

During the second half of the seventeenth century the goldsmiths paid 6 per cent for deposits, and lent to the Government or to trading companies at 8 per cent, thus making 2 per cent profit. A temporary loan to Charles II amounting to over £1,300,000, on the security of the taxes, was not repaid when it became due, and the goldsmiths had to be content with the interest. The incident caused considerable alarm in commercial circles, and confidence was for a time destroyed. The loan was, in fact, never repaid, and still forms a small fraction of the National Debt. All that the goldsmiths got were 3 per cent annuities paid out of the hereditary excise, to be counted as redemption and continuing only until half the amount of the original loan was liquidated.

THE BANK OF ENGLAND

The modern banking system dates from the foundation of the Bank of England in 1694, following the lines of a scheme laid down by William Paterson. To meet the pressing needs of William III, then engaged in a war with France, money had to be raised. A lottery scheme in 1693 was successful in attracting a large amount in small sums, but the Government was strongly condemned by the Puritans for encouraging the gambling spirit. In the following year a number of City merchants of Whig sympathies undertook to raise by public subscription a loan of £1,200,000, and to lend it to the Government at 8 per cent interest, which was to be paid out of revenue obtained by additional taxation on beer and wine, and by higher rates on foreign shipping entering British ports.

There were many people who argued that the establishment of a bank threatened the trade of the country with ruin. It was alleged that the proposed Bank of England "would absorb all the money in the Kingdom and would subject commerce to usurious exactions"; that "it would attract to itself all the money in the country by its high rate of interest and that no capital would be available for trade and industry"; that "it would grow too powerful and would become the keystone of the commercial world, and that if it failed, it would drag down with it the whole of English trade"; that "it could only favour a limited number of merchants" who "would soon be able to ruin their competitors."

The Tories feared "that a State Bank would be one step towards a republic, because such institutions are not compatible with a monarchy"; the Whigs, on the other hand, "feared lest the foundation of a bank should lead to absolute monarchy, since the King

would be supplied with means of procuring money through this institution and might thus escape the financial control of Parliament.”¹ In particular the land-owning classes fought the project tooth and nail in opposition to the merchants and financiers of “Grocers’ Hall,” whose influence finally secured the passage of the Bill through Parliament. There is no doubt that the great success of the Bank of Amsterdam, which was at the height of its prosperity near the end of the seventeenth century, had a considerable influence on the movement for the establishment of the Bank of England.

The promoters were incorporated as the Governor and Company of the Bank of England. Their charter gave them power to issue notes to the value of the loan, and they were protected by what was then the unusual privilege of “limited liability.” The debt was funded, that is to say, it was regarded as permanent; no date was set for repayment, and the lenders were content to go on receiving interest in perpetuity. The Bank became also the agent of the Government in negotiating further loans, kept the Government balances, and were given control of the currency.

The Joint Stock Principle.

The transaction was novel, inasmuch as for the first time the joint stock principle was applied to banking. Previously the great banking concerns were built up on the family fortunes of individual financiers,² and lacked the permanence and stability of undertakings which rested on broader foundations. The joint stock principle had become sufficiently familiar in certain

¹ See Andréadès : *History of the Bank of England*, pages 68–9.

² E.g. the Peruzzi (1300), the Medici of Florence (1450), the Fuggers of Austria (1550).

kinds of enterprise in the seventeenth century, often superseding the earlier form of regulated company ; but there was always a prejudice against dealing with an intangible corporation, especially in money matters.

Loan agreements were, therefore, always contracts between individuals ; the element of time was prominent, and the " funding " of debt by governments was unknown. It was not an accident that the establishment of the first incorporated joint stock bank coincided with the beginnings of funded debt ; for permanence was a fundamental characteristic of each. The charter ensured that the business of the Bank of England should continue beyond the period of the lives of the original founders, and this fact afforded to the holders of funded stock a continuing guarantee that their dividends would be forthcoming.

Renewals of the Charter.

The Act of 1694 granted to the corporation the privileges of a bank for twelve years. In 1697 various further concessions were granted, including the power to issue notes up to the amount of the original capital of £1,200,000. A " complete monopoly " ¹ was at the same time guaranteed for as long as an additional loan to the Government should remain unpaid.

In 1709 the charter of the Bank of England was again renewed and extended. In consideration of new borrowings, the Government inserted in the charter a clause which strengthened the monopoly of the Governor and Company by forbidding " covenants or partnerships, exceeding the number of six persons in . . . England, to borrow, owe, or take up any sum or sums of money on their bills or notes payable on

¹ " No other corporation, society, fellowship, company or constitution in the nature of a bank, shall be erected or established or allowed by Act of Parliament within this Kingdom."

demand . . .” The clause is significant, because it implies that the power to issue notes was regarded in the eighteenth century as essential to the existence of any bank.

The Country Banks.

When, in 1742, the charter was once again renewed, the monopoly of note issue was still more carefully defined. The prohibition did not extend to other kinds of banking business, nor to partnerships of less than six persons. But the commercial developments of the age of the Industrial Revolution made it essential that there should be an expansion of currency and credit. There was a considerable demand for loans by enterprising men eager to exploit the new machinery. “A rich harvest was often reaped by those who could start as dealers in loans by making them chiefly in the form of their own notes or promises to pay . . . A shopkeeper, being in the habit of drawing bills on London and remitting bills thither for the purposes of his own trade, would do the same for his customers and other neighbours, and having as yet possibly little or no view to the issuing of bank notes, printed ‘The Bank’ over his door, and engraved those words on the checks on which he drew his bills.”¹ It was said that “any petty tradesman, any grocer or cheesemonger, however destitute of property, might set up a bank in any place, whilst a joint stock company, however large their capital, or a number of individuals exceeding six, however respectable and wealthy they might be, were precluded from so doing.”²

Between 1750 and 1792 the number of “country”

¹ Marshall : *Money, Credit and Commerce*, pages 303-4.

² Lord Liverpool in the House of Lords, quoted in Cunningham : *Growth of English Industry and Commerce in Modern Times*, pages 823-4 (note).

banks grew from a dozen to 400. In the crisis of 1793 at least a hundred of these failed. They were insecurely based, allowing interest on all deposits, issuing credit far beyond the legitimate requirements of trade, and retaining too small a reserve of coin to meet abnormal demands for cash payments.

Abolition of Monopoly.

Such were the unfortunate effects of the Acts which gave the monopoly of joint stock banking to the Bank of England. Since the law did not allow large firms of recognized standing and possessed of abundant reserves, to issue good notes, it was left to small tradesmen to supply the deficiency with bad ones. Again, in 1825, a financial crisis following upon a period of speculative insanity brought down seventy-six country banks. It was clear that the monopoly would have to be abolished and a freer system established. Finally, in 1826, an Act was passed permitting joint stock banking outside a radius of sixty-five miles from London. A commission of inquiry soon after established, to the surprise of everybody, that the monopoly extended no farther than to the matter of issuing notes, and that there existed no legal prohibition of joint stock banking of other kinds even in London. There was, therefore, no reason why joint stock deposit banks should not be established forthwith. The Bank of England fought for an extension of its privilege, but in vain. In 1834 the London and Westminster Bank was founded, and in a very short time it was followed by a large number of others.

Bank Charter Act of 1844.

The Act which now governs the Bank of England was drafted by Sir Robert Peel in 1844. It provided that there should be two departments: the issue

department and the banking department. The former was empowered to issue notes against securities to the value of £14,000,000 ; beyond this amount notes could be issued only against coin or bullion. The note issue of other banks was not allowed to exceed the average amount in the hands of the public for the twelve weeks preceding the date of the passing of the Act ; and if any banker ceased to exercise his privilege, the Bank of England might issue additional notes against securities to the extent of two-thirds of the notes withdrawn. On the amalgamation of two banks, any existing privilege of note issue, possessed by either or both, was held to lapse. Further, anyone was entitled to demand notes in exchange for standard gold at a fixed rate of £3 17s. 9d. per ounce. A bank return was to be published weekly.

The banking department functions like other banks. All sums received by way of taxation are paid into the Government account, and all payments authorized by the Treasury are made by means of cheques drawn on this account. In addition to the very large Government account, there are many private accounts. Also the Bank of England holds the balances of all private and joint stock banks which are members of the Clearing House. Settlements between one bank and another are arranged by transfers in the books of the Bank of England. Their main reserves of bullion are also kept at the Bank, which controls therefore the ultimate banking reserve for the whole country. The Bank of England pays no interest on deposits, and therefore does not enter into competition with other banks. It makes advances to the Government on the security of the taxes, and undertakes the business of floating national loans.

The most important feature of the English banking system, built up on the Act of 1844, is the convertibility

of the notes. Nevertheless, in the crises of 1847, 1857, and 1866 the Act was suspended in order to allow of the issue of notes beyond the limit fixed by law. In the first and third of those years the limit was not in fact exceeded, because confidence in the ability of the Bank to meet all claims was rapidly restored. In 1857 the issue of notes in excess of the legal margin amounted at its maximum to less than £1,000,000. Parliament passed an Act of Indemnity to safeguard the Governor and Company of the Bank against any legal consequences which might follow the breach of the law. Between 1866 and the date of the outbreak of the Great War, it was not again found necessary to suspend the Bank Charter Act. But in the unprecedented situation of 1914, the necessity for conserving gold led to a stoppage of cash payments which continued until the Budget of 1925 made provision for the restoration of the gold standard.

TRADE CYCLES IN ENGLAND

Although the extension of the banking system was ultimately of immense value to commerce, the fact must not be lost sight of that the use of credit instruments was only slowly learned, and that many initial errors were made. Banks (other than the Bank of England) are not even now required to publish their accounts, so that the general public has no sure means of judging the extent of their resources. There are, therefore, many temptations to take risks. A bank, by granting credit too readily and beyond the legitimate requirements of business, may cause prices to rise, and engender an atmosphere of harmful speculation. On the other hand, a too sudden restriction of credit may produce in business circles a feeling of alarm ripening quickly into panic.

Financial history in the eighteenth century is full of crises due to the over-issue of paper money following a too sanguine estimate of trade prospects. The failure of Law's Land Bank in France in 1720, was due to this cause. In England and Scotland, in 1772, there was a general collapse of credit, involving the failure of the Ayr Bank, which had to suspend payment when £800,000 of paper was in circulation. The full round of inflation and deflation, or over-issue and under-issue, moved from this time in cycles of about ten years, five fat years being followed by five lean years. In 1782, following the American War, and again in 1792, as we have seen, trade expansion led to the collapse of credit.

The close of the Napoleonic Wars in 1815 was soon followed by another crisis, due to the cessation of war orders, the revival of Continental competition, and the necessity for "going slow" while stocks which accumulated during the Continental blockade were disposed of—a slow process on account of the poverty of Europe.¹

In the year 1824 there occurred a mania for company-promoting at home and abroad. The speculation fever spread even to remote country districts, and had many features resembling those of the South Sea Company boom of a century before. The canal and dock boom, and foolish investment in Mexico and South America,² mark the crest of the wave. In all 624 companies were formed in 1821-4, with a nominal capital of over £372,000,000.

¹ It has been pointed out by Mrs. H. A. L. Fisher, in *Then and Now* (1925), that the distress of 1815-30 was ascribed to the same evils as that of 1918-25, viz., "public extravagance, high taxation, foreign tariffs, over-population, under-production, the burden of war debts, foreign inflation, deflation, and so on."

² Of twenty-six foreign government loans floated between 1818 and 1832, only ten continued to pay interest in 1837. See Hirst: *The Stock Exchange*, page 53.

The decline began in April, 1825 ; excessive importation of cotton and silk at inflated prices turned the balance of exchange against this country, and led to a shortage of gold. The bank reserve fell during 1824-5 from £13½ millions to £1¼ millions. There was a run on the banks, many of which stopped payment. Several joint stock schemes came to disaster, and involved subscribers in heavy losses. As in the United States in the same period, the real cause of the trouble was recognized to be the over-issue of paper by the country banks. The consequence was the Act which permitted joint stock banking outside the sixty-five mile radius, but restricted the privilege of issuing notes within this area to the Bank of England.

The recovery during the middle 'thirties was marked by a great expansion of joint stock enterprises at home to meet a growing demand for all kinds of commodities. Railways absorbed about £70,000,000 ; banking companies £24,000,000 ; insurance companies £7,000,000 ; mining companies £7,000,000. Crises in France, Belgium, and the United States led to a great demand for gold. At the same time there was a steady drain of bullion from the country banks to meet the needs of trade, and the Bank of England, instead of raising the rate of interest in the early stages, took action too late to be of any avail to check the crisis. There was strong criticism of the Governors, and the proposal made in 1837, to extend the application of the principle of limited liability, paved the way to future legislation.

The succeeding trade cycle includes the Bank Charter Act (1844) and the Repeal of the Corn Laws (1846). It was hoped that the limitation of note issue would result in more stable conditions for commerce, by preventing excessive fluctuations of price. But there were other forms of credit to which the provisions of the Act did not apply, such as bills of exchange and

cheques. These were equally a substitute for specie, but their quantity, rising and falling with the state of trade, could not easily be controlled. Credit crises, therefore, continued to occur at fairly regular intervals, and showed the same general features.

The Railway Boom.

The years 1844-5 were remarkable for an orgy of speculation in railway shares. The most extravagant hopes were held of their prospects, and lines were constructed which could not possibly earn a dividend for a generation or two. Great Western stock, which was 236 in 1845, fell three years later to 65½; London and North-Western slipped down from 254 to 99. The Irish potato famine, and the failure of the harvest of 1846, made necessary a large importation of corn, paid for by an export of gold. The drain of specie was felt with exaggerated force in a market which was demanding more rather than less currency. The bank rate was raised to 5½ per cent, and failures were frequent.

Gold Discoveries.

The slump coincided with the discovery of gold in California in 1848, an event of far-reaching importance in the history of commerce. It was followed in 1851 by the discovery of gold in Australia. The rise in prices which followed the first shipments of gold brought back prosperity. British shipping benefited by the profits of passenger traffic, and British exports and imports nearly doubled in value (though not in volume) between 1848 and 1856. The deposits in joint stock banks jumped from £9,000,000 in 1847 to £43,000,000 ten years later. In the same decade it is estimated that £180,000,000 of new gold was brought into the market. While for two centuries and a half

before 1850 the annual production had averaged less than £2,000,000, during the period 1851-60 it averaged over £26,000,000. Every commercial nation in the world responded to the rise in general prices by indulging in reckless trading and investment.

Limited Liability.

The frequent recurrence of panics exposed the investing public, chiefly composed of the middle classes, to serious losses and much distress. The existing law of joint stock associations for trade or industry not only exposed every individual stockholder to the risk of losing his own stake in the concern, but also to the extent of his private fortune rendered him responsible for the total loss. There is no doubt that the fear of losing all was calculated to deter many would-be investors from adventuring a part, especially since, in the absence of published accounts, they had no safeguards against rash speculation by the directors. The Companies Act of 1862 was devised to afford protection to investors. It enabled seven or more persons to form a company with limited liability, and made it compulsory to publish the original prospectus and the annual accounts. At the same time the law of partnership was amended, so that in future people having capital to lend to a business could do so without exposing themselves to the liabilities and responsibilities of partners.

Failure of Overend, Gurney & Co.

The immediate consequence of these Acts was the conversion of thousands of private firms into limited liability companies, and the flooding of the country with prospectuses of new ventures, many of them fundamentally unsound. This fact, however, was not

apparent to the large class of inexperienced folk, who were induced by descriptions of glowing prospects to part with money carefully stored "for a rainy day." With the object of restoring financial sanity the bank rate was raised to 9 per cent in 1864, but the dearness of money did not check the mad impetus. The crash came in 1866, when Messrs. Overend, Gurney & Co., discount bankers, whose paid-up capital was £5,000,000, failed for £19,000,000. The fall of this important concern dragged down into bankruptcy numberless other quite reputable firms and private investors. The bank rate rose further to 10 per cent, and again the Bank Charter Act was suspended until confidence was restored.

The Cotton Famine.

The crisis was accentuated by the cotton famine caused by the blockade of the southern ports during the Civil War in America. At this time more than four-fifths of raw cotton used in England came from the Southern States. For some years previous, the market for manufactured cotton had been overstocked, so that in any event there would have been a slackening of production. Half the mills were closed down altogether, and the distress due to widespread unemployment was so severe as to require public relief for half a million people, or nearly a quarter of the entire population of the cotton towns. The alternative sources of supply were so scanty that raw "upland" cotton jumped from 6d. a lb. in 1861 to 29½d. a lb. two years later. There was one good result. Much-needed attention was given to the development of new supplies from Egypt, Brazil, India, Algeria, and Spain. Moreover, the set-back to American commerce, caused by the Civil War and the preoccupation of Prussia, Austria, Denmark, France, and Italy with the

wars of 1866-7, gave to British trade an excellent opportunity for forging ahead.

This was the period when steel, being now cheaper as well as more durable, was displacing iron for ships, rails, and a thousand other purposes. There was a "steel boom," the output increasing tenfold between 1872 and 1882. But the disturbance to European credit, caused by the payment of the French indemnity of 1871, had first to be encountered. Germany took advantage of the indemnity to place her currency on a gold basis, and this circumstance brought confusion into the money market. There was a momentary check in 1873 to the extraordinary expansion of British trade; but the more important effects were felt in Germany and Austria, where exhaustion set in after the scramble for the new capital imported from France. In general, the rate of progress was retarded until 1879.

Agricultural Depression.

In that year the extraordinary collapse of British agriculture added a new element to the situation. The "rural exodus" was now going on apace, and England was becoming definitely a nation of town dwellers. Millions of acres were going out of cultivation. British farms were not equipped to meet the competition of the grain states of America. The farmers lacked capital and were too conservative in their methods; labour was becoming on the average less efficient, as the more vigorous villagers emigrated to the industrial towns or to America. The "unparalleled disaster" of the harvest of 1879 followed upon a series of poor crops. Ordinarily prices would have risen, but now the flooding of the market with superabundant grain from the United States kept prices so low that many farmers and landlords were ruined.

The tendencies already at work in the villages were accentuated, and capital and labour deserted the land at an even more rapid rate. It was estimated in 1886 that the aggregate income of the agricultural classes (landlords, farmers, and labourers) had declined by nearly £43,000,000 in the previous ten years.¹

The revival of the years 1880-4 was only partial, and there were pessimists who believed that the heyday of British trade had passed. The subsequent depression was felt first in the textile industry, whence it passed to the iron, steel, and shipping trades. A Royal Commission reported that the causes of trade depression were: (1) over-production; (2) falling prices; (3) exclusion of British goods from protected foreign markets; (4) cheaper production in foreign countries, resulting from cheaper transport facilities and higher technical training of industrial workers; and (5) consequent underselling by foreign competitors in home and neutral markets.

Recent Crises.

During the last forty years the peak years have been 1890, 1900, 1907, 1913, and 1920. The intervals (in the early part of the century rather over than under the decennial period) have now become shorter. At the height of the 1890 boom, the Baring crisis occurred. There had been a great rush for shares in companies formed to exploit the natural wealth of Argentina, and to develop her municipalities. But confidence in the possibilities of the new country at length gave place to doubt. The result was the alarming failure of the Argentine Government loan, and in the general consternation Messrs. Baring Bros., discount bankers, found themselves, although solvent, yet temporarily unable to meet their liabilities. On

¹ Prothero: *English Farming, Past and Present*, page 378.

this occasion the Bank of England came to the rescue, and the situation was saved. Gold was obtained from the Bank of France, and recovery was aided by a further influx of gold from the newly-discovered Rand deposits in South Africa.¹

The Race for Supremacy.

In 1896 prices fell to their lowest level, but from this point they were destined to rise with hardly any interruption. The early years of the Boer War were marked by expanding trade, and in particular those branches (textiles, iron, steel, and shipping) which fifteen years before had been regarded as well-nigh hopeless, enjoyed a period of remarkable prosperity. This was due to a very great advance in the productivity of industry, aided by quicker and cheaper transport, and to the application of scientific principles to agriculture. Under the stimulus of low prices and high wages, there was an appreciable rise in the general standard of living which expressed itself in a growing demand for better food, clothing, housing, furniture, amusement, education, and everything else upon which the income of the people is spent. At the same time it was a disquieting thought that the monopoly which had made England "the workshop of the world," was now irretrievably lost.

The new industrial nations, the United States of America and Germany, exceeded Great Britain in population, in territory, and in natural resources. Great Britain had lost the clear lead she had once possessed in coal production, the United States having in 1900 overtaken her, while Germany was steadily creeping up behind. In the manufacture of pig iron, Great Britain lost the lead to U.S.A. in 1890, and second place to Germany in 1900. In export trade the

¹ Gold was discovered in South Africa in 1885.

United States took pride of place in 1898, but lost it again shortly after. From 1900 to the outbreak of the Great War these three nations ran a neck-and-neck race, while France fell far behind. In shipping alone did the British Empire maintain and even increase her advantage.

The Boer War was followed by two or three years of industrial stagnation, marked by a bold agitation for a change in the direction of British trade policy, but in the partial recovery of 1906-7 the agitation subsided. During the depression of 1908-9 the nation became wide awake to the presence of a dangerous under-current of "industrial unrest." Money wages failed to keep pace with the rise in prices; real wages were falling, and the consuming power of the people was declining. Frequent wars destroyed much capital that would have been available for industry,¹ and the increasing cost of production made it harder to meet foreign competition.

Commerce During the Great War.

Nevertheless, until the summer of 1914 there was a steady expansion in the volume of foreign trade, and there is every reason to believe that this would have continued for some time longer had not the outbreak of hostilities abruptly thrown the smooth routine of commerce into dire confusion. The immediate peril to the credit system was met by the declaration of *moratoria*, whereby those who had financial obligations to meet (e.g. banks) were allowed to postpone settlement. Stock exchanges were closed and for a time there were no official quotations. Government control was exercised from the start over distributive trade in order to prevent hoarding of food. Gradually this control extended over all the industry and commerce

¹ For a fuller discussion of the situation, see the author's *Main Currents of Social and Industrial Change*, page 117.

of the country. The functioning of ordinary competitive commerce was almost totally suspended. The export of capital was prohibited and new issues could be made only with consent of the Treasury ; those who held securities in foreign countries were compelled to sell them in order that money might be available for war loans. Railways and shipping were temporarily taken over by the Government on a guaranteed basis of profits. In order to safeguard supplies of vital necessities, exports and imports were strictly controlled. Factories were requisitioned, and the whole industrial energies of the country directed to the provision of munitions of war and whatever was essential to maintain the nation in health and strength. Control Boards bought up the total yield of certain crops (e.g. of Australian wool) and then rationed the supply in certain proportions for the army, the civilian population, and export trade. In a similar way cotton, wheat, sugar, and coal were dealt with. To spread out the supply of wheat, adulteration with inferior grains was made compulsory. Individual consumers, too, were rationed, and prices of controlled commodities were fixed from day to day by administrative order. Even when there were no official prices, public opinion was powerfully organized to check "profiteering." Where it was impracticable to prevent the reaping of swollen profits, the Government took back a large proportion as Excess Profits Duty. Thus, whenever it conflicted with the purposes of the nation as a belligerent, the free operation of economic forces was checked.

Many of the expedients which were first used to meet a temporary emergency remained after the war as permanent features of our economic system. From the financial crises which produced the pound and the ten-shilling Treasury notes, we inherited an inconvertible paper currency. Certain forms of control have

survived, such as that exercised by the Consumer's Council. Methods of industrial conciliation and welfare adopted during the war (e.g. Whitley Councils) are still operative. Many of the factories newly built or re-equipped with up-to-date machinery, to increase the output of war material, are now converted to the uses of peace, and represent a definite addition to the nation's productive capacity. As the war cut Great Britain off from many former sources of food and raw materials, new ones were developed. Greater efforts have been made to stimulate the production of cotton, oil, rubber, and sugar within the Empire. Our dependence on foreign supplies of timber led to the setting aside of money for afforestation in the British Isles. Government grants in aid of industrial scientific research have been continued with excellent results.

The Post-War Boom and the Slump.

The two years which succeeded the war were marked by an unexampled trade boom. In every direction, the restraints which had been voluntarily practised or statutorily demanded were removed. One after another of the national services were "decontrolled." British goods were in enormous demand for the reconstruction of devastated areas. Unemployment was at the irreducible minimum of 1 per cent. Prices and wages reached their maximum during 1920. In the early months of this year industrial and speculative stocks were quoted at "peak" prices, and the figures for shipping and railway traffic were higher than ever before. In March there were new capital issues to the extent of £65 millions. Steel output was highest in June, and export values were at their maximum in July. The first half of the year was altogether a period of boundless trade activity.

A sudden increase in the unemployment figures for

October gave warning that all was not well, and before the end of the year the signs of change were not to be mistaken. The capital issues for December were the lowest for any month during three years. Traffic was declining, and the fall in import and export figures was alarming. There were coal strikes in October and again in the spring of 1921. During the winter prices began to slip down from the high levels, and continued their downward course for over two years longer. Unemployment reached its maximum (23 per cent of trade union membership) in June, 1922.

The following figures, taken from the *Board of Trade Journal*, indicate the extent of the decline in imports, exports, and re-exports in million pounds *on the basis of prices in 1913*—

	1913.	1921.	1922.	1923.	1924.
Imports . . .	769	570	659	735	824
Exports . . .	525	262	362	404	423
Re-exports . .	110	86	89	94	106

It will be noticed that while imports in 1924 once again reached and even rose above the pre-war level, exports are still far below that level. It is this feature of post-war trade which has led to anxious questioning regarding the future of British industry and commerce.

Strenuous efforts have been made to restore our position in foreign markets. But the difficulties have been great. Not only has the purchasing power of many foreign nations been diminished by war losses, but the risks of trading with merchants in countries, where economic chaos still reigns, are too serious to be faced by individual exporters. Accordingly the Export Credits Scheme has been set up. This insures the trader wishing to resume relations with foreign markets against losses due to political causes. The Trade

Facilities Act was passed to give support on certain conditions to any industrial entrepreneur wishing to embark on works of construction calculated to afford employment to a large number of people.

THE BALANCE OF TRADE

No feature of our foreign trade is so remarkable and permanent as the annual excess of imports over exports, or the "adverse trade balance."¹ In this respect the United Kingdom resembles nearly all advanced industrial countries. In each of them the rapid multiplication of capital, which results from manufacture, yields a surplus over and above immediate home requirements; this surplus, being invested abroad, sets up a return flow of interest payments. But since both capital and interest are remitted as merchandise, it follows that fluctuations in the figures for visible exports and imports will reflect changes in the relative indebtedness of foreign countries. It must be noted, however, that the export of capital (e.g. when a Brazilian loan is floated in London) takes place over a relatively short period, while the resulting interest payments stretch out over many years. The dividends received in the United Kingdom on overseas investments, in a normal year, are slightly in excess of the new investments.

Foreign investments and interest payments are, however, not the only factors contributing to the equilibrium of external trade. The value of the services rendered by shipowners, merchants, agents, and bankers engaged in foreign trade have to be debited against the value of imports. The total

¹ Although the implications of the old mercantilist description of trade balances as "favourable" or "unfavourable" have no basis in actual fact, the phrases are still generally used for purposes of convenience.

The adverse balance in 1700 was less than £1,000,000; in 1750 it was £4,000,000; in 1800 it was £10,000,000.

earnings of the shipping industry of the United Kingdom (an "invisible export") actually exceed the value of her most important "visible export" (cotton). There are numerous other items of international payment which do not appear in the statistical returns of exports and imports ; for example, personal expenditure of travellers ; value of postal parcels ; pensions ; tax payments, and other remittances abroad. But these may be neglected while we consider how the fluctuations in shipping profits and foreign investments have been reflected in the trade statistics of the United Kingdom at intervals since 1854—

Year.	Excess of Imports in Millions Sterling.	Year.	Excess of Imports in Millions Sterling.
1854	36	1915	358
1868	67	1918	783
1872	40	1919	653
1877	142	1920	375
1886	81	1921	275
1893	128	1922	180
1903	182	1923	203
1907	128	1924	341

It is noticeable that in periods of inflated trade the excess of imports is low, and in periods of depression the excess is high. The explanation is due to the fact that when trade is prosperous there is a considerable amount of foreign investment, so that relatively to imports, exports are for a time swollen. But trade depression checks the rate of foreign investments, and imports go ahead once again. In fact, the quantity of capital exported fluctuates much more than the amount received in interest, and the investments of a single year bear only a small proportion to the total existing indebtedness of foreign countries.

During the war the export of capital was prohibited and many securities held abroad were compulsorily

taken over by the Government, to pay for purchases of war stores. Great Britain raised loans in America, and the resulting eastward flow of commodities produced an enormous preponderance of imports. This continued from 1915 to 1920, when the adverse balance was beginning to fall back rapidly to within reach of the pre-war level. The payment of about £40,000,000 annually to the United States in redemption of the war debt began in 1920, and contributed to the narrowing of the margin between imports and exports.

The earnings of shipping, though difficult to ascertain with accuracy, probably do not vary greatly from year to year in normal times. Sir Robert Giffen estimated them at rather over £100,000,000 a year. More recent calculations place the figure rather below this estimate for pre-war years, and rather above it for the years which have succeeded the post-war boom.¹

Imperial Trade.

The accompanying table gives the approximate value (in millions sterling) and percentage proportion of British trade: (1) with five groups of foreign countries; (2) with the countries of the Empire in 1910 and in 1924—

	IMPORTS.				EXPORTS.			
	1910.		1924.		1910.		1924.	
Europe	255	44%	331	33%	147	34%	247	31%
Africa	21	4%	41	4%	18	4%	31	4%
Asia	17	3%	36	4%	31	7%	69	9%
America, N. (including Central and West Indies)	113	20%	215	22%	37	9%	63	8%
America, S.	48	8%	89	9%	48	11%	59	7%
Countries of the Empire	121	21%	263	27%	147	34%	327	41%

¹ See Appendix II.

The significant changes revealed by this table are : (1) the fall in the proportion of trade with European countries, due to general impoverishment resulting from the waste of war, the depreciation of the currencies, the creation of new customs frontiers and the raising of tariffs ; (2) the striking increase in the proportion which Empire trade bears to the whole. The causes which have depressed European trade have here been absent.

If we subject Empire trade to a further analysis, other significant facts come to the surface—

DISTRIBUTION OF EMPIRE TRADE

(Millions Sterling)

	IMPORTS FROM :			EXPORTS TO :		
	1904.	1913.	1923.	1904.	1913.	1923.
Canada . . .	23	30	53	12	27	29
South Africa . . .	5	12	16	20	25	30
Australia . . .	24	38	49	20	38	62
New Zealand . . .	13	20	43	7	12	22
British India . . .	36	48	67	42	72	87

The figures for South Africa, Australia, and India show a "favourable" trade balance from the standpoint of the United Kingdom. But South Africa sent to this country nearly £12,000,000 worth of diamonds in 1913 and over £8,000,000 worth in 1923, not included in the given statement. Gold to the value of over £40,000,000 sterling in each year is also excluded. The inclusion of these will reverse the balance, and reveal the payments due from South Africa as interest on investments and payment for shipping, governmental, and other services rendered by Great Britain.

The surplus of exports to Australia calls for a different explanation, since imports of bullion and

specie from Australia now account for only an insignificant sum.¹ The large volume of exports is due to considerable loans floated in London in recent years on behalf of the Commonwealth and State Governments. These loans have gone out in the form of goods. The surplus of exports is, therefore, likely to diminish as the return flow of goods in payment of interest sets in.

The rise in the proportion of imperial trade from 27 to 41 per cent in the space of fourteen years is a fact of great importance. It suggests that the future of home industry is bound up with imperial development. The slogan "Buy British Goods," which has been recently adopted, points out the direction in which the salvation of our commerce is to be sought. The British Empire Exhibition at Wembley in 1924 and 1925 was described in one phrase as a "symbol of unity," and in another as "the shop-window of the Empire." It was a reminder of the unlimited resources of the sister nations. "There is not a necessity, hardly a luxury, that is not produced within their bounds . . . If the pavilions of the dominions and the colonies at Wembley are the most effective arguments for the encouragement of Empire trade, they also furnish the most attractive of reasons for the encouragement of Empire settlement."²

But it would be unwise to lose sight of the fact that, while the proportion of United Kingdom trade with the imperial dominions is growing in comparison with the whole, that of the imperial dominions with the United Kingdom is declining. Canada and India in particular are buying from cheaper markets than those of the home country. This suggests that the Empire,

¹ In 1923 only £54,000. For some time Australia's production of gold has been required to satisfy her growing demand for currency.

² *The Times, British Empire Supplement*, 23rd April, 1924.

as its resources are developed, will become better able to furnish all the food and raw materials that we require, and will at the same time to a certain extent provide expanding markets for our manufactures. But it by no means follows that the economic sufficiency of the Empire in relation to the mother country implies the economic sufficiency of the United Kingdom in relation to the Empire. The dominions within a generation or two will outnumber the mother country in population, and with the expansion of their industries, their commerce will become as extended as our own.

TRADE CYCLES IN U.S.A.

In other countries the history of trade fluctuations presents the same general features. It will be useful for purposes of comparison to consider in some detail the succession of ebb and flow of economic prosperity in at least one country other than Great Britain. There are many episodes in the commercial history of the United States which make it peculiarly interesting.

The great expansion of banking took place in the United States in 1811, when the twenty years' monopoly of the First Bank ran out. On account of the opposition of the State banks the charter was not renewed. But many private banks of issue were established, which made up for the scarcity of metallic currency by note issues without adequate backing. This led to the suspension of cash payments in 1814, and for some years the country was on a paper money basis, the notes circulating at a discount of from 10 to 50 per cent.¹ An attempt to restore specie payments through a second United States bank failed, and the inevitable consequence of the too rapid expansion of the years 1814-19 was a general collapse.

¹ Bogart : *Economic History of the United States*, page 238.

The smaller banks, by contracting their note circulation even below the quantity required for normal trading, were now responsible for the slump as they were previously for the boom.

Western Expansion.

The experiment of a Central Bank for the United States was finally abandoned in 1832, and from that time the separate State banks were alone authorized to issue paper. This was the period of most rapid Western expansion, when speculation in prairie land was stimulated by improvements in the means of transportation and communication, by the growing demand of English factories for raw cotton, and by the atmosphere of calm which prevailed in the world of international diplomacy. Many banks were established in the Western States to create the credit with which public lands might be purchased by pioneers.

To correct an unfavourable balance of trade (imports increasing faster than exports) specie had been sent abroad in payment, and currency was scarce. In consequence of this, the issue of the Specie Circular of 1836, requiring that thereafter payment for public lands should be made in gold and silver instead of in paper, precipitated a crisis which coincided with and accentuated the depression of 1836 in England. There was a reduced demand for cotton, which injured the planters, while the manufacturers of New England were suffering from the effects of increased foreign competition following the gradual scaling-down of the tariff since 1833. The whole economic life of the United States sagged for some years. Foreign trade fell off by one-third. The note issue contracted two-thirds. The sales of public land in 1841 were only one-twentieth of the sales at the height of the boom in the early part of 1836. There was yet another

crisis in 1847, due to railway speculation, again paralleled by that in Europe.

Development of Transport and Communication.

The 'fifties were marked by very rapid advance, due to causes which were of world-wide effect. There was a removal of natural as well as of artificial barriers. Railways, the telegraph, and steamships were annihilating distance, and adding to the economic advantage of commercial relations by enabling exchanges to be effected more cheaply, in less time, and with less risk of loss.

Moreover, nearly all governments were at this time engaged in lowering the high tariff walls with which they had previously enclosed their economic preserves, so that it became easier for commerce to leap the barriers. But still more important in its immediate effects was the influx of new gold. The boom took the usual course. Too much capital was immobilized in railways and factories, that is to say, "fixed" in forms in which it could not quickly be rendered fluid again; when, therefore, there was felt to be a shortage of floating capital, and a few firms found it difficult to tide over temporary embarrassments, assurance gave place in a single night to doubt and panic. The failure of the Ohio Life Insurance Company, in 1857, was quickly followed by a general collapse of other concerns—railways, insurance companies, banks and distributive firms.

Issue of a Paper Currency.

In the years preceding the Civil War, the only legal tender in the United States was gold and silver. All official payments and receipts were in hard cash, although an enormous amount of private business was carried on by means of notes issued by the sixteen

hundred banks. There was no State issue of paper money. But just as the demand for currency during the Great War compelled the British Government to issue Treasury notes in 1915, so during the Civil War an inconvertible paper currency was issued in 1861 by the United States Government. The consequences were alike. The notes, called "greenbacks," depreciated in value (in other words, prices rose) and gold, which commanded a premium, disappeared from circulation. Wages, too, rose, but slower than general prices, and with the fall in real wages industrial trouble broke out. After the war, deflation, or the withdrawal of some of the paper currency, caused a depression which is paralleled by that experienced in Great Britain in 1921. The years of inflation were marked by unhealthy speculation, stimulated by habits of too easy spending among the people. The reaction began in 1873, when one failure led to others, and these to a general panic during which the Stock Exchange was closed for ten days.

Effect of Rapid Expansion.

In the following years the industrial development of the United States, and its rapidly increasing population which doubled itself every twenty-three years, made the currency question an urgent one. To meet the demand for cheap money there was, after 1878, an enormous coinage of silver dollars and a large issue of Treasury notes, based on silver, but convertible on request into gold. Conversion led to a great depletion of gold reserves, and brought about in 1893 a dangerous situation which culminated in the most severe crisis of the century. There were over 8,000 failures in this year, including those of 573 banks and several important railways. For a time production was comparatively at a standstill.

Speculation and Trusts.

The discovery of gold in Alaska (Klondyke), in 1898, relieved the situation and provided the tonic which industry and commerce required. Except for a brief check in 1903, expansion went on rapidly until 1907. This is the period of the most active development of trusts, i.e. associations of producers, traders, or agents to eliminate competition and to secure control of a market. The large profits of industry in a rising market once again gave an opening to the speculator, and capital flowed freely until the enormous destruction of wealth, in the earthquake at San Francisco, brought counsels of prudence. The retarding movement was begun by the banks, which realized that their issue of credit to clients had gone beyond safe limits. These, in their turn, became immediately aware of the changed tone, and the "safety first" instinct warned them to turn their securities into cash as quickly as possible, with the consequences which attend every "run" on the banks.

Federal Reserve Boards.

Commercial panics in U.S.A. were, as a rule, more disastrous in their results than those in Great Britain, because there was no institution corresponding to the Bank of England to come to the rescue in the early stages of financial embarrassment. It is true, though a paradox, that the Bank Charter Act can be of avail to restore confidence only when it is suspended, that is to say, when the issue of notes beyond the legal limit is authorized, for in ordinary times there is no temptation to exceed the limit. Nevertheless, the confidence which is felt in the Bank of England causes every other bank to merge most of its reserve of bullion in the central reserve, and thus the business of the country

is carried on with a much smaller margin than would otherwise be necessary for safety.

Until 1913 U.S.A. had no federal reserves. But in that year Federal Reserve Boards were established. These are really bankers' banks, and they do no business with individuals. Situated in nodal centres in twelve areas, their concern is to keep a finger on the pulse of commerce, and so ensure that each district shall be sufficiently supplied with currency. It is too early yet to say whether the adoption of central reserves in the United States will steady the money market, and save credit from those headlong crashes which have in the past wrought such havoc.

CHAPTER XIV

THE REACTION AGAINST FREE TRADE

THE operation of "most-favoured-nation" treatment, which was provided for in most of the commercial treaties of the 'sixties, had a far-reaching effect, because the slightest concession made by one country in favour of another was at once automatically shared by many other countries. The general tendency, therefore, was for tariffs to fall. But the emancipation of commerce was going on at the same time in other directions. Numerous prohibitions were abolished, and the practice of discriminating against particular countries was gradually being abandoned. While imported manufactures were still subject to moderate duties in countries other than Great Britain and Holland, raw materials were almost everywhere admitted free of duty. Freedom of commercial intercourse was further promoted by the sweeping away of internal customs barriers in Germany and Italy, as these countries made progress towards political unity.

Reaction Towards Protection.

The domination of free trade ideas continued until about 1869, when a reaction set in. The ten-year Cobden Treaty of 1860 was about to come up for reconsideration, and the nations were taking stock of their gains and losses. There were general causes at work which favoured an increase of State intervention. It was first called for by the flagrantly evil industrial conditions which a long régime of *laissez-faire* had allowed to grow up, but it subsequently passed over to the regulation of commerce. The movement developed

most rapidly in Germany, where the State came to be regarded as having a paternal authority over the activities of the citizens; many matters previously regarded as apart from its functions were now given over to its care.

Furthermore, during the middle years of the century, the sentiment of nationality was gaining a strong hold on the various peoples of Europe, and the desire to shelter native industry by keeping out foreign goods was a very natural expression of this sentiment. As the adolescent colonies grew to the state of manhood, they, too, sought to control their economic destinies through the protection of their industries. Canada turned aside from the free trade movement about the same time as Germany and Italy. Frequently the assertion of nationalist principles led to costly wars, and the necessity for an expanding revenue suggested the possibility of obtaining something from increased duties on imports. The development of transport and communication, and the growth in each country of a more complete and efficient industrial and financial organization were at the same time intensifying international competition, and the producers and traders who carried on commercial warfare complained that they should be deprived of the tariff weapon. Governments faced with the problem of a growing social unrest became more sensitive to the demand for protection.

Finally, the depression in agriculture in the 'sixties gave impetus to the reaction. Europe was being flooded with foodstuffs from America, and, as fast as prices fell, millions of acres went out of cultivation and millions of capital invested in land were lost. The "rural exodus" was accelerated, and congestion in the towns brought new social problems.

But the demands of agriculture and the demands

of industry for protection were based on contentions which were mutually destructive. For the landed interest wanted higher prices for agricultural produce, and contended that a prosperous agricultural system was essential for national health and security in time of war. Higher prices were, after all, a cheap form of insurance against the risks involved in dependence on imported food supplies.

On the other hand, the industrial interests, in their efforts to secure the economies of large-scale production by extending the markets for their manufactured products, found themselves sooner or later faced with the competition of countries where labour was cheaper. They, therefore, viewed with alarm the prospect of higher prices for food and raw materials, which would increase the cost of production and make it more difficult for them to secure entry into new markets. The export trade could not be maintained unless costs of production, including wages, were kept down. As these rested ultimately on food prices, the maintenance of cheapness and plenty was a central point in their policy.

Tariffs in France.

The full tide of reaction did not set in until 1877, although France, immediately after the Franco-German War, denounced¹ the old treaties. In 1872 there was a departure from the open shipping system established six years previously, whereby it was agreed that there should be no "flag discrimination," that is, that no country should grant to the vessels of any foreign country, nor even to national vessels, facilities or privileges which were not equally shared by all. Notwithstanding this, France now imposed differential duties on goods imported in vessels flying an alien flag, and soon after reverted to a system of bounties

¹ That is, gave notice of the termination of the treaties.

to encourage French shipping. Three new tariffs in succession were adopted during the 'eighties, and a further revision in 1892 reintroduced the system of differential duties. Since that time the tendency of tariff changes has been in general upward, and France has become highly protected.¹

Tariffs in Germany.

In Germany the movement towards free trade, which started with the *Zollverein* of 1865, persisted a little longer. But the severe industrial crisis, which coincided with the payment of the French indemnity in the 'seventies, shook faith in the policy of moderate tariffs. There was a fall in prices, due to the increased demand for gold. The adoption of a gold standard by Germany and other countries coincided with a fall in the output of the new gold mines. In the expectation of good times, productive plant had been multiplied, but the increased output could not now be disposed of except at unremunerative rates. In face of "over-production," there arose a strong demand for more effective protection. The agitation for increased tariffs was led by the agrarian interests of East Prussia. These, as long as Germany had a surplus of wheat for export, adhered to the policy of the open door, but, being now faced with the competition of cheap American wheat, demanded fiscal reform. Bismarck, in 1878, reversed the trend of policy. Not only was the tariff on foodstuffs considerably increased, but also the duties on manufactures, especially those of Great Britain and the United States of America.

The tariff was designed both to protect infant industries, and to produce a steady revenue which would relieve the Chancellor from the necessity of calling upon the individual states to bear the whole

¹ See Bastable : *Commerce of Nations*, page 97.

cost of imperial administration. The revised tariff was drawn up in 1879, and at the same time Germany began to look abroad for new markets, especially in Africa, and for territories over which her rapidly growing population might expand without being lost to the Fatherland. Since 1879 there have been several upward revisions.

Until 1891, high import duties on metals favoured the heavy iron and steel industries. Then the landed proprietors urged their case, and the severe tariff of 1902 was designed to aid the large growers of grain, especially in the flat north-eastern provinces.

Tariffs in U.S.A.

Until the middle of the nineteenth century, the main argument for the imposition of tariffs was found in the need for shielding infant industries against ruthless competition. The attempt of England to preserve a monopoly of industrial skill by forbidding skilled workmen to emigrate, and by prohibiting the export of machinery, produced in the United States a sense of indignation. The alleged attempts of English merchants to smother the cradled manufactures of her old colonies, by "dumping" upon them quantities of goods below cost price, added force to the contentions of the advocates of protection. The advance of population in the United States of America itself provided a home market, which expanded at least as rapidly as the productive power of her industries; and, therefore, the risk of retaliation on the part of European countries was hardly worth considering. "The importance of keeping this great domestic market for American manufacturers is the origin of one of the chief features of American commercial policy, i.e. a protective tariff. The enormous natural resources of the country and the great consuming power of the population have

led, with the assistance of a protective tariff, to the production of many classes of manufactured articles on a large scale.”¹

This phase of American policy lasted from about 1860 to 1913. Tariff revisions began during the Civil War, when additional sources of revenue were urgently needed. Under the influence of an intensified nationalist sentiment, the increased rates survived after the war. Wages in the United States were higher than in Europe, and it was feared that the admission of the products of European low-paid labour would tend to depress the high standard of living customary in America. This was the reason for the McKinlay Tariff of 1888 and the Dingley Tariff of 1897. That there was an enormous development of industry during this period of high protection cannot be questioned. But expert economists differ profoundly as to the exact relation of cause and effect, and it would be unwise, therefore, for anyone to adopt the most plausible explanation because of its apparent simplicity. Doubtless many other factors, for example, the high productivity of American labour, the large natural resources of the territory, and the varied aptitudes of a citizen population drawn from so many stocks, have been at work to raise the United States of America to a position of leadership among industrial countries.²

In 1913, following upon a tentative revision of the Dingley Tariff four years earlier, there took place a remarkable reversal of commercial policy. The reasons for this cannot here be fully gone into, but one or two may be mentioned. Firstly, the “infant industry” contention could no longer be advanced, because the industries of the United States had attained to mature status, and sheltering protection was no longer required.

¹ *Survey of Overseas Markets*, page 454.

² See Marshall: *Industry and Trade*, Book I, Chapter VIII.

Secondly, the growth of trusts had reached such proportions as to cause alarm, and it was feared that the tendency towards the "trustification" of American industries was connected in some way with high tariffs. The home market was not now expanding as rapidly as productive capacity, and yet high costs of production in sheltered industries were handicapping those who were trying to develop foreign trade. The new Tariff Act reduced the scale of duties to a level lower than had been known for half a century.

It is impossible to say what the result of this reversal of policy would have been, had not the outbreak of war disturbed its operation. For a time America was freed from foreign competition, both in her own and in many distant markets, and the insatiable demands of belligerents for commodities of all kinds started many new industries on their career. When peace was restored, the United States was faced once again with the competition of goods from countries with depreciated currencies. To prevent gross underselling, the Fordney McCumber Tariff was adopted in 1922, whereby in particular the textiles, china and glassware, and fine steel manufactures of the United Kingdom, were subjected to increased duties. At the same time an effort was made to restore prosperity to American shipping by the Merchant Marine Act¹ of 1920, giving preferential railroad rates for goods carried in American vessels.

Tariff Movements in Some Other Countries.

The overhauling of Italy's liberal tariff of 1861 took place in 1877, under the influence of agricultural depression and revenue shortage. At first there were modifications of the tariff in favour of France and, by

¹ Often called the "Jones Act." So far it has, for various reasons, remained inoperative.

virtue of the "most-favoured-nation" clause, of England, but on this agreement being denounced ten years later, there ensued a tariff war between France and Italy, during which political strategy carried the latter into the Triple Alliance with Germany and Austria. In Austria, Russia, Spain, and Portugal events took a similar course. The only Continental country which consistently adhered to free trade principles was Holland.¹

A few examples may be given of the changes in tariff levels which took place during the early years of the reaction. Thus, the duty of 3s. per head of live oxen imported into France was raised in 1881 to 12s., and in 1885 to 20s. The tax on fresh meat rose from 3d. to 6s. per cwt. In Germany, wheat which paid duty at 6d. per cwt. in 1879 paid 5s. in 1887. The increase in the tariff on Italian cotton, linen, and iron goods was 20 per cent to 200 per cent, according to quality.

The Reaction in Great Britain.

The lapsing of the treaties in the 'seventies left Great Britain disillusioned and defenceless, and she could, as a rule, do no more than secure "most-favoured-nation" treatment for a year at a time. The expectations of the Cobdenites were disappointed, for they believed that the free trade idea was destined eventually to achieve universal acceptance. There was at first a disposition among some to regard measures of retaliation against countries which discriminated

¹ The following table shows the relative incidence of the tariffs of some foreign countries on British goods in 1924—

Brazil . . . 41%	Italy . . . 15½%	Canada . . . 13½%
Spain . . . 37½%	France . . . 12½%	India . . . 10½%
U.S.A. . . . 32%	Japan . . . 10½%	Australia . . . 9½%
Argentine . . 20½%	Germany . . 10%	South Africa . . 9%
	Holland . . . 2½%	New Zealand . . 8½%

See *Summary of Overseas Markets*, page 545.

against British products as not incompatible with free trade principles. But the distinction between retaliation and full protection was too finely drawn to serve as the basis of a policy.

The cry for protection was raised during periods of industrial depression, and sank again when trade revived. Now and again policies were adopted which doctrinaire free traders regarded as violations of the orthodox creed. Such were the grant of State subsidies to shipping in 1880, to enable British shipowners to meet the competition of State-subsidized foreign mercantile marines. The subsidies on shipping sometimes conferred indirect benefits on certain other interests. For example, the aid given in 1897 to West Indian lines enabled the sugar planters to compete more successfully with the beet-root industry on the continent of Europe. Five years later direct aid to the extent of a quarter of a million sterling was given to the cane-sugar industry. It was defended as an act of grace to relieve a suffering people, but orthodox free traders opposed it as a matter of principle.

The enormous development of international competition in the closing years of the nineteenth century and opening years of the twentieth, together with the unmistakable evidence of trade statistics, which showed that the United Kingdom was losing ground relatively to Germany and the United States, produced a state of feeling in this country favourable to the revival of the protectionist argument. The adoption of the Dingley Tariff in the United States of America in 1897, and the German Tariff of 1902, seemed to call for some measure of retaliation. At the same time, the idea of imperial preferences, first suggested at the Colonial Conference of 1887, was again discussed at the Colonial Conferences in 1897 on the occasion of the Diamond Jubilee, and in 1902 on the occasion of the Coronation

of King Edward VII. The colonial representatives offered to give preferential treatment to the manufacturers of the United Kingdom, if only the home Government would adopt a general tariff, which could be manipulated to admit food and raw materials from the colonies at equivalent preferential rates. Such a step was proposed as the first instalment of a policy which was to lead eventually to free trade within the Empire, and to the establishment of an Imperial Customs Union, on the lines of those which had been created, though not without tears and bloodshed, in Germany and the United States. Joseph Chamberlain, on his return from South Africa in 1903, opened a strenuous campaign in favour of preferential tariffs within the Empire. But notwithstanding the fact that certain minor departures from free trade principle, referred to above, had already been allowed, the agitation for tariff reform failed to carry the nation. The policy was heavily defeated at the polls in 1906, and did not revive as practical politics until the changed conditions produced by the war brought it again to the front.

Key Industries.

Recent experience has shown that certain industries are essential for our safety when threatened in war. For they employ materials which have also important uses in the manufacture of munitions of war, and therefore it is desirable that the supply of such materials should be developed in peace time by the encouragement of those industries which make use of them. Similarly, certain manufacturing and engineering processes and forms of skill are vital in the prosecution of modern war, and essential for the carrying on of staple national industries. To ensure that such fundamental industries should continue to flourish, the Safeguarding of Industries Act was passed

in 1921. The articles enumerated in the schedule numbered about 3,000, each of which was subject to an *ad valorem* duty of $33\frac{1}{3}$ per cent. By administrative action additions might be made on the representation of trades which claimed to be "pivotal."

The Budget of 1925 introduced import taxes on silk and some minor articles. Although these were designed for revenue rather than for protection, it is probable that they must be considered as heralds of a general tariff. For arrangements were made for a committee of the Board of Trade to investigate the possibilities of raising further revenue by similar means.

COLONIAL TARIFFS

The disposition of the free traders was to regard the colonies as expensive encumbrances. In Cobden's first political essay, written in 1835, occurs the passage: "In truth we have been planting, and supporting, and governing countries upon all degrees of habitable, and some that are not habitable, latitudes of the earth's surface; and so grateful to our national pride has been the spectacle, that we have never, for once, paused to inquire if our interests were advanced by so much nominal greatness. Three hundred millions of permanent debt have been accumulated—millions of direct taxation are annually levied—restrictions and prohibitions are imposed upon our trade in all quarters of the world, for the acquisition or maintenance of colonial possessions; and all for what? That we may repeat the fatal Spanish proverb—'The sun never sets on the King of England's dominions.' For we believe that no candid investigator of our colonial policy will draw the conclusion, that we have derived, or shall derive, from it advantages that can compensate for these formidable sacrifices." ¹

¹ Quoted in Hirst: *Free Trade and the Manchester School*.

Canada.

It was little thought in England when the Navigation Acts were repealed and the colonies were allowed to throw open their ports to the shipping of all nations, that this liberty of action would quickly be used to erect tariff barriers against the home country itself. But in fact the influence of the United States was being strongly exerted, if unconsciously, to promote the desire for complete economic freedom, first in the parts of Canada contiguous to the manufacturing areas of U.S.A., then over the maritime states and ultimately in Australia and New Zealand.

The British Possessions Act forbade the Canadians to import from just over the land border those American manufactures, such as certain kinds of hardware, farm and lumbermen's equipment, and leather and felt goods which were so much better adapted to Canadian requirements than anything produced in Great Britain. "These lines of goods not only met Canadian conditions better than similar imports from England, but they could be seen before they were imported. They were much more easily procured than similar goods from the United Kingdom; for long before what are now the provinces of Ontario and Quebec were linked by railway to Buffalo, Detroit, New York, and Boston, there was regular and cheap communication by means of the Great Lakes."¹ So similar in fact were the economic interests of Canada and the U.S.A., that projects for commercial union were frequently made.

In 1858-9 Canada, by her decision to impose tariffs even against imports from the United Kingdom, took a long and important step towards self-government, and set an example for the other colonies to follow. The Colonial Office was powerless to interfere, and

¹ Porritt : *Fiscal and Diplomatic Freedom of the British Overseas Dominions*, pages 37-9.

on the whole Great Britain was indifferent. British trade was expanding rapidly, and manufacturers were confident that they could hold their markets. Even when Canada entered into a reciprocity agreement with the United States of America, from which the United Kingdom was excluded, there was no protest. The ideal of an Empire with a uniform fiscal system, based on free trade, faded into the background and was finally abandoned.

After the establishment of the Dominion in 1867, there appeared to be a faint tendency towards a moderate system, and the general tariff was lowered from 20 to 15 per cent. But Canada did not escape the great industrial depression of the 'seventies, and in 1879 the "national" policy was inaugurated, directed especially against British goods, though imports from the United States of America were also affected. The new policy was remarkable for the re-emergence of many of the features of earlier mercantilist policy; for example, the use of bounties and the attention paid to the balance of trade.¹ In later years concessions, in the form of rebates on British goods, were made to imperialist sentiment. At the present time these rebates give to Empire products an advantage of 8½ per cent over those of Germany and the United States, and of 5 per cent over those of French, Belgian, Dutch, and Italian goods.

Australia.

Most of the colonies of Australia were free-trading until 1860. There were then only a few small revenue duties on spirits, beer and sugar. But in 1864 South Australia, followed by New South Wales, Queensland and Victoria, adopted general tariffs, varying from 5 to 10 per cent, nominally for revenue purposes but

¹ See Horrocks: *Short History of Mercantilism*, page 190.

actually operating to protect their manufactures. From these levels there was a general advance to 20 or 25 per cent within a few years. When the Commonwealth was founded in 1900, a lower but uniform scale was adopted, with substantial rebates in favour of the United Kingdom. The incidence of the Australian Tariff, as applied to British goods in 1924, was $9\frac{3}{4}$ per cent, giving them an advantage of $11\frac{3}{4}$ per cent over goods of foreign origin, this preference being much greater than before the war.

India.

From 1882 India sacrificed all revenue from import duties, except such as were imposed to keep out undesirable goods, for example, alcohol and firearms. This period of pure free trade lasted until 1894, when a general tariff of 5 per cent was levied for purposes of revenue. In later years it became necessary to make up for the loss of revenue involved in the abolition of opium export by raising the tariff still higher. But in theory India retained her free trade system until 1917, when the Indian Government was permitted to raise the duty on imported cotton from $3\frac{1}{2}$ to $7\frac{1}{2}$ per cent, while the excise duty remained at $3\frac{1}{2}$ per cent. In 1921 the import duty was further raised to 11 per cent, the excise remaining unchanged. In 1924 protection was afforded to iron, steel, and machinery also. This movement towards a protectionist system has accompanied the growth of manufacturing industries in India, while the rise of Japan as a commercial nation has also influenced the course of events.

WORLD TRADE SINCE THE WAR

The Committee on Industry and Trade, set up in 1924, has attempted to answer the questions : " What

has been the general trend of the world's trade since the war? How does its present magnitude compare with the magnitude in the years just preceding the war? And is the share of Great Britain in the aggregate world's trade an increasing or a decreasing share?" The problem has been complicated by the abnormal changes that have taken place in prices, gold values, territorial ownership, and other factors, and comparisons are very difficult to institute when standards have altered. Nevertheless, certain general conclusions have been arrived at of which the following sections are a summary.¹

World Trade and the Share of the United Kingdom.

Measured in sterling value the aggregate of the world's export trade for 1923 showed an increase of 31 per cent over that of 1913, while the share of the United Kingdom increased from 13 to 14 per cent of the total. But since there has been in the same interval a general rise in prices, estimated at between 50 and 60 per cent, it follows that there has been an actual decline in the volume of world trade, and correspondingly in the volume of the trade of the United Kingdom. Calculated on 1913 price levels her exports in 1923, amounted to only about three-quarters of those of ten years earlier.²

It is noticeable, however, that there is a much greater proportional increase in the sterling value of British exports than in that of British imports. The fact is significant. In so far as this is due to increased productive and distributive costs entering into selling

¹ For the purposes of this chapter, considerable use has been made of the *Survey of Overseas Markets*, published by the Committee on Industry and Trade (1925).

² See Table on page 261.

price, it is fraught with danger to our foreign trade. But some part of the increase may be accounted for by "a shift of the export trade towards the higher and more expensive qualities of goods," which is a more comforting explanation.

There are three broad influences at work affecting the volume and the local distribution of world trade : (1) a decline of purchasing power, particularly among the people of Central and Eastern Europe, and the Near and Far East ; (2) growth of local manufactures born during the war period, or, if of earlier birth, brought to maturity under the favourable conditions produced by the temporary cessation of competition ; (3) intensification of foreign competition, due to currency depreciation which has caused under-selling, territorial changes which have disturbed the balance of markets, and the modification of tariffs deliberately planned to secure advantages for native industries.

Decline of Purchasing Power.

In some countries economic recovery after the war has been slow. The destruction of man-power and capital, and the devastation of large areas, have so deranged the delicate mechanism of credit and impoverished the nations, that there has been a general falling-off in their standard of consumption. In Germany, while the cost of food had risen 27 per cent in 1924 as compared with 1913, wages of skilled labour had risen only about 7 per cent. The power to absorb foreign manufactured goods was therefore seriously diminished.

Political unrest has occasionally contributed to delay economic recovery (for example, in China and Mexico), while in other countries the check to foreign commerce has been due to deliberate policy. The Bulgarian Government in 1924, with the object of

checking currency depreciation, forbade altogether the importation of some 150 categories of goods, considered to be "not of the first necessity." Lastly, the demand for goods has suffered from the prevalence of a depressed condition of mind. There has been a widespread idea that worse was still to come. The feeling of doubt resulted in a holding back of possible orders until the situation should show signs of improvement. The decline of demand has been felt most severely by those countries whose economic life depends almost entirely upon manufacture for export.

Growth of Local Manufacture.

It is stated in the *Survey of Overseas Markets*¹ that "in several British dominions the tendency to foster local manufacture of goods has undoubtedly been strengthened by the experience of war. In Canada there has been a remarkable growth of manufactures ; while in Australia great efforts are being made to develop industries, and in particular woollen manufacture. In India, which previously depended on importation for most kinds of industrial products, the war called into being a number of industries to supply the gap caused by the cutting off of former sources of supply. The movement towards industrialization has since been reinforced by nationalistic sentiment and fostered in various ways by governmental action ; and whatever set-backs it may receive in the future, the tendency to develop home industries has undoubtedly come to stay. In South America, Brazil has developed a number of industries (including textiles and boots and shoes), the annual value of the products being estimated in the survey at £45,000,000. In Argentina the volume of industrial production is estimated to

¹ Page 10.

be from two to three times the pre-war output. In Chile it is stated that 'in almost every branch of industry attempts are being made, usually with success, to produce in the country goods that have hitherto been imported.' Among the examples mentioned are cement, where the growth of the local industry has reduced imports from 144,000 tons to 34,000 tons, and wire nails, the imports of which are now entirely displaced by home manufactures. The growth of lignite production in Germany, and the development of hydro-electric power to which attention is called in several of the surveys, have both tended to displace coal formerly imported into certain markets. . . . The number of cotton spindles in Japan, China, India, and Brazil in 1913 was about ten millions ; by 1924 the number had risen to nearly eighteen millions. Between 1913 and 1922 the number of cotton-power looms in India and Japan rose from 120,000 to 200,000. The annual production of steel just before the war in Japan, China, India, and Australia was 360,000 tons. In 1922 it was 858,000 tons."

As might be expected, incipient local manufactures are much more likely to aim at supplying the cheaper and coarser qualities of goods, since they are equipped with neither the specialized machinery nor the skilled labour required for the production of higher grades. It is probable, therefore, that the great industrial countries can expect to compete successfully with native infant industries, employing cheap labour and supplying an immediate market with standard goods, only if they devote their attention to the production of the finer qualities. It is to be expected, moreover, that the spread of industrial communities, for example, in India, will eventually give rise to many new wants among the people, as their manner of life changes and a higher standard of consumption becomes general. In this

way fresh markets may develop for the more highly specialized goods of the advanced industrial countries whose earlier losses will thereby be made good.

The Growth of Competition.

As already stated, the share of Great Britain in the trade of the world has been fairly maintained during the past decade. But while Germany has almost ceased to count as a competitor in foreign markets, and the recovery of Belgium is still incomplete, Great Britain has now to face keener rivalry on the part of France and the United States of America. The former has acquired control of important iron and coal deposits in Alsace, and thereby strengthened her industries in those respects in which they were previously weak. The United States found herself after the war taking the place of Great Britain as the financial centre of the world, and dominating the commerce of half the globe. Compared with the year before the war, "the exports of Germany in 1923 amounted only to about 53 per cent, and those of Belgium to 63 per cent . . . while those of France had risen to 106 per cent, and those of the United States nearly 120 per cent."¹

Among the exports of the last-named, manufactures have gained in relative importance. There has been a corresponding decline in imports of manufactured goods from Europe, and a tendency towards direct trade relations with non-European markets. The United Kingdom has consequently lost ground not only as an exporter of her own manufactures, but also as a re-exporter. Her services as intermediary between U.S.A. and the foreign sources of her raw materials are now in smaller demand.

The general competitive situation as it affects British goods is summed up as follows : " Where quality and

¹ *Survey of Overseas Markets*, page 22.

workmanship are the deciding factors, the British article sells on its merit without particular regard to price ; when price is a more important factor, continental countries and Japan generally have the advantage ; while in articles capable of manufacture on a large scale, the development of the domestic manufacturing industries has practically eliminated serious competition from foreign sources.”¹

The Export Coal Trade.

For the last century the export of coal has been so important an element in British trade that the recent pronounced decline in foreign demand is causing much concern. For some years the average export was about a quarter of the total annual output of 250,000,000 tons. But as raw coal as a source of power is being supplanted all over the world by petroleum oil and by water, it is not to be expected that the export coal trade can be maintained at its present level. In 1925-6 the Government subsidized the coal-mining industry in order to enable it to pay its wage-bill and to stimulate demand by lowering prices, until such time as the recommendations of the Coal Commission regarding the reconstruction of the industry could be made effective.

¹ *Survey of Overseas Markets*, page 453.

CHAPTER XV

COMMERCIAL DEVELOPMENT OF SOME OTHER COUNTRIES

THE economic development of Germany was delayed for a century by the disaster of the Thirty Years War (1618-48), when it is estimated that more than half the total population fell victims to the war and its terrible consequences in famine and plague. Large tracts of land were devastated and lay waste for generations. Many cities, once proud of their vigorous life, were depopulated, and the people sank into an abject state of political disruption, material poverty, and moral debasement. Recovery, long delayed by frequent feuds, at last began to take place in the late eighteenth century under the lead of the more enlightened princes. These pursued a liberal commercial policy, encouraged the introduction of foreign craftsmen and the establishment of new industries, and promoted agriculture.

The most important productive areas were the Rhine valley, yielding wine, fruits, and cattle for export; Westphalia, already important for hardware and textiles; Saxony, where a valuable industry sprang up in the making of fine woollen cloth; Leipzig, whose "book fair" was an early institution, stimulating a number of ancillary industries such as paper and leather making, printing and engraving; Nürnberg, famous for toys, wood-carvings, clocks, and watches. Frankfurt-am-Maine became the most important financial and trading centre. Most of the foreign trade came to the port of Hamburg, passing thence into the interior along the valley of the Elbe, or to the port of Amsterdam which commanded the Rhine route.

Germany discovered that she had rich natural resources in coal, iron, salt, and potash, although the time had not yet arrived when these could be utilized to the full. The most progressive of the states which, in the eighteenth century, made up the vague entity called "Germany," was Prussia, which owed much to the policy of Frederick the Great (1740-86). In addition to fostering native industry and improving internal communications, he founded the State Bank of Prussia and the Maritime Trading Company.

Backward State of German Commerce.

Notwithstanding such efforts, the economic condition of Germany was still, at the beginning of the nineteenth century, relatively to modern standards extremely backward. Agriculture was organized on an unprogressive system of common cultivation, and the peasants were serfs bound to the soil. In the towns industry was choked by restrictive guild regulations. The external trade was rudimentary, and internally the high tariff barriers, which surrounded each of the three hundred and sixty states, effectually checked the development of commerce and industry. Napoleon made a beginning with the abolition of privilege and monopoly, and the creation of larger political units. The reforms of Stein and Hardenburg, in 1807 and 1811, inaugurated a freer system of land holding, and emancipated the peasantry. Beginning in 1818, progress towards a Zollverein, or customs union of all the German states, went on steadily under the lead of Prussia, until the adhesion of Hamburg and Bremen in 1888 completed the process. Thus the formidable obstacles which custom and law had erected against commercial intercourse were removed, and the way was prepared for a great advance of industry.

Beginnings of Industrial Growth.

The industrial growth of Germany began late—not before the middle of the last century. Until then, the bulk of the scanty population continued to live in villages and small country towns, and 60 per cent were employed in agriculture. Manufactures were still in the domestic stage. There was very little trading capital, and the means of transportation and communication were wretchedly poor. The stimulus which first set Germany fairly on the road to industrial greatness was the influx of capital after the gold discoveries. During the 'fifties cottage handicrafts were, with the aid of the newly-established banks, rapidly being transformed into factory industries on a joint stock capitalistic basis.

The lateness of this development was in some ways an advantage to Germany. It enabled her to face the transition from the domestic to the factory system, wide awake to the peculiar dangers which it entailed, and with a settled policy for meeting them. Whereas in England the change proceeded aimlessly and uncontrolled, in Germany it was guided throughout by statesmen knowing the goal to be reached, and with clear ideas as to the path to be followed. Finding that they were faced with the competition of well-developed industry in other countries, they deliberately set out to reduce the handicap by attention to technical education and the encouragement of industrial scientific research. Each step towards national political unity (for example, the formation of the North-German Confederation of 1866) brought economic advantage, since questions of tariffs, currency, banking, and transport could now be considered from a wider standpoint.

The Zollverein entered readily into the free trade arrangements of these years, and commercial treaties

were concluded with England, France, Holland, Belgium, and Austria. Unfortunately, too much of the nation's resources in man-power and money were absorbed in warfare. The decade 1860-70 witnessed wars with Denmark, Austria, and France; the culmination of this period of political stress was the establishment of the German Empire in 1871.

Commercial Expansion.

Freed from the nervous and material drain of internal jealousies and foreign enmities, the German people now entered upon a stage of phenomenal commercial expansion. The receipt of the French indemnity provided a new fund of capital for industry,¹ and the acquisition of Alsace and Lorraine, rich in agricultural and mineral wealth, was an additional stimulus. Between 1870 and 1874 the number of joint stock companies increased fourfold. Within the space of a single generation, from 1871, Germany rose to the rank of a first-rate industrial power. There were many factors contributing to her meteoric progress, and it is not easy to estimate their relative importance: national pride and ambition; deeply ingrained habits of discipline; a high average of general and technical education among the people; a powerful administration with a single eye for industrial advancement and fertile in projects for social amelioration. Add to these a bold, positive policy of State ownership and control, a cult of efficiency in business methods, a relatively low standard of living among the labouring population making for cheap production, abundant mineral resources (especially coal, iron, and potash), and excellent natural waterways—all

¹ A part of this indemnity was employed to establish German currency on a gold basis.

combined to create a situation favourable for commercial development.

The basis of Germany's transport system was afforded by her many navigable rivers, and the chain of canals which linked them together. It was possible to send goods along inland waterways from the Baltic and the North Sea to the Black Sea, a distance of nearly 2,000 miles. Some canals served also military and naval purposes; for example, the Kaiser Wilhelm Canal.

These canals, admirably suited for the slow transport of bulky and imperishable goods, were supplemented by railways for fast traffic; and since they were all under the same control, there was none of that harmful rivalry which accounts in part for the decline of the British canal system. The railway system was carefully planned to favour military concentration at vital points, and to promote the development of certain ports, such as Hamburg.

By plodding, humdrum methods, such as the broadcasting of trade samples and of commercial circulars in many languages, by willing attention to detail in supplying the special demands of different communities, by long credits, by the establishment of agencies in foreign countries, custom was attracted and an entry forced into competitive markets. In these efforts, German traders had every encouragement from the Government and the banks. They enjoyed cheap transport on State-owned railways and canals, and on State-subsidized steamships.

The greatest and most characteristic advances were made in: (1) the iron and chemical trades, based on abundant supplies of mineral ores and salt deposits, and helped by the high scientific equipment of the workers; (2) transport, by rail, river, and canal, under a system of State ownership; (3) ocean shipping,

favoured by bounties ;¹ (4) the beet-sugar industry, also favoured by export bounties, and enjoying a very large home market ; (5) textile manufacture, especially silk, associated with the great development of chemical aniline dyes ; (6) manufacture of agricultural machinery and electrical apparatus ; (7) toy manufacture, a product of cottage industry ; (8) agriculture and forestry.

Germany's Entry into World Trade.

The natural growth of Germany's population (more rapid than in other Western countries) was sufficient for a time to absorb the output of expanding industry, but as the productive powers of Germany were developed, she too was compelled to join in the struggle for distant markets. Unfortunately for her the great empty spaces most eligible for colonization had already begun to be occupied, and Germany had to face a very difficult situation.

The produce of agriculture was no longer sufficient to support her population. In the 'eighties she was passing quickly from the condition of a food-exporting, to that of a food-importing, country. Food imports had to be paid for by increased manufactured products, and there was in consequence a marked movement of the peoples from rural into urban areas. In 1870 the rural population was nearly 70 per cent of the whole ; in 1900 it was about 50 per cent.

Pressure on the means of subsistence caused many peasants to emigrate. But the emigrants, being for the most part absorbed into alien populations (e.g. in the United States of America), did not create for German industry new and friendly markets. In the scramble for Africa which followed the explorations of Sir Samuel Baker, David Livingstone, and Sir

¹ The first shipping agreement was with the North German Lloyd in 1885 ; this was renewed in 1898, when the subsidy amounted to over 5½ million marks.

Henry Stanley, Germany was deeply involved. The African Society, founded in 1878, stimulated inquiry into the possibilities of colonial development, with a view to providing an outlet for German manufactures, a home for German emigrants, and a source of raw materials for industry. Agencies were established at various points along the coast, and Togoland, Kamerun, German South-West Africa, and German East Africa were acquired by annexation or purchase.

The only other regions of the world which remained open to appropriation by the Western nations were in the Pacific, and here Germany occupied part of New Guinea (Kaiser Wilhelm's Land) and some of the Caroline and Solomon Islands. These territories were doubtful assets, and probably until the outbreak of the Great War, when they were lost, the cost of administration and defence was greater than the profits earned by trade. German merchants and investors probably stood to gain more by securing a controlling interest in the railways of the Near East (for example, the Baghdad Railway). These were designed to assist in the revival of areas which, having once supported a highly-developed civilization based on a thriving agriculture and commerce, could probably be made to do so again. In Morocco, German enterprise found itself in dangerous conflict with French, and it required a conference of the Great Powers (at Algeciras in Spain, 1906) to define the position.

Shipping.

At the opening of the modern period in 1871, Germany possessed only five hundred ships engaged in foreign trade, no dry docks, and very poorly-equipped shipbuilding yards. No feature of her commercial advancement is more striking than the impetus which carried her within a generation to the position of

Great Britain's chief rival in merchant shipping. At the outbreak of war Germany possessed over 5,000,000 tons of shipping. In its general features her external trade, three-fourths of which was maritime and one-fourth continental, had grown to resemble that of Great Britain. Among the exports finished goods, and among the imports foodstuffs and raw materials for industry preponderated. The imports exceeded the exports by rather more than 25 per cent, the account being balanced mainly by the interest on capital invested abroad and by payments for services rendered.

Present State of German Commerce.

The principal changes in Germany's economic situation due to the war and to the conditions which followed it, are the loss of nearly all her overseas territories; the passing of important industries, for example, the textile industries of Alsace, and the iron and steel industry of Polish Upper Silesia, into foreign possession; the depreciation of the old currency and its re-establishment on a gold-mark basis; and the reconstruction of her railways, factories, harbours, canals, electric generating plant, and so forth at an almost negligible cost. Her mercantile marine has diminished by two million tons. Until the beginning of 1925, certain clauses of the Treaty of Versailles deprived Germany of freedom to enter into foreign commercial treaties, and the occupation of her territory by allied troops and the necessity of providing payments as "reparations" fettered her economic liberty still more.

Dawes Scheme.

At present the situation in Germany is governed by the "Dawes Scheme," which was devised to rehabilitate

German industry, by providing her with credits and loans to supply her deficiency in liquid capital, and to support a stable currency. With the removal of the advantage which a depreciated currency and low wages gave her in production for export trade, Germany is now compelled to meet foreign competitors on more equal terms.

For many years the bulk of German exports has consisted of articles wholly or mainly manufactured. In 1913 these made up two-thirds of the total. The proportion has now increased to four-fifths of the whole. Partly manufactured articles have shown a slight falling off, and food and raw materials also make up a smaller proportion of the whole. In this respect German trade shows the same general tendency as that of all highly industrialized countries. The isolation of Germany during the war compelled her to develop intensively her own natural resources. In particular, she has put her lignite deposits to good use for the production of electricity, a matter which is calculated to result in a smaller demand for foreign coal. Germany, like the United States, is endeavouring to eliminate the re-export trade from the United Kingdom by using Holland as an exporting centre, and entering into direct relations with the countries (for example, India) which supply her with the raw materials for her industries.

In order to protect the home market there has been a revised system of import restrictions. The import of woollen goods, for example, is limited to 20 per cent of the pre-war total. Certain kinds of goods can be imported only under special licence, and permission is withheld unless there is pressing necessity. The commercial treaty arranged with Great Britain in December, 1924, providing for the removal of these prohibitions and restrictions, has still to be ratified.

COMMERCIAL DEVELOPMENT OF FRANCE

During the eighteenth century, France, with a much larger population, was building up her foreign trade almost as rapidly as Great Britain, but while the latter was developing chiefly her overseas commerce, French exports (two-thirds of which consisted of wine and foodstuffs) went mainly to her continental neighbours. Her chief colonial product was sugar, cultivated by slave labour in the West Indian plantations; this sugar trade was extraordinarily profitable.¹ The development of French manufacturing industry was retarded by a narrow economic system which gave no room for enterprise and experiment. There was a movement towards a more liberal commercial policy in 1786, when the reciprocal treaty with Great Britain was signed, but the opposition of the manufacturing interests secured its early repeal. The introduction of machinery was slow, and at the end of the century manufactures dependent on iron and coal had scarcely begun.

Economic Reforms in the Revolutionary Era.

In the Revolutionary and Napoleonic era (1789-1815) commerce was freed from many fetters. Feudal obligations were abolished, and ecclesiastical property was divided up into more than 100,000 small holdings. Restrictive gild regulations were set aside, and taxation was put on a more equitable basis. By the removal of internal customs barriers, France became a single economic unit.

But these reforms were nullified by a faulty currency system. The over-issue of paper money, called *assignats*, drove the precious metals out of

¹ In the year 1789 the colonial trade of France compared with that of England was in the proportion 4 : 3.

circulation and led to enormous depreciation. An *assignat*, having a face value of a hundred francs, had a purchasing power of only a few centimes. Industry was in consequence paralysed. There was no revival until Napoleon drastically reorganized the Government finances, established the Bank of France with a monopoly of note issue, and revised the tariffs on exports and imports. He realized the need for developing manufacture and establishing new industries. His encouragement gave the initial impetus to the French cotton manufacturers, to the beet-sugar process, and to various chemical industries. Later, by the "continental system," Napoleon launched a bold offensive against British trade with Europe, which was at least partly effective.

But the weapon of the blockade recoiled upon himself, and the protests of the merchants of Prussia, Hamburg, Holland, Denmark, Sweden, and Russia compelled the Emperor to issue (for a consideration) permits to trade with Britain. In 1810 the defection of Russia left undefended a long line of Baltic coast, and British goods found an easy access to Central Europe through the port of Riga.

A Period of Reconstruction

Notwithstanding Napoleon's efforts on behalf of trade and industry, France began the post-war epoch with a commerce diminished by one-fourth as compared with that of the pre-Revolution epoch. But the foundations of a more extended commerce had been securely laid, and with the coming of peace progress became rapid. The French people exchanged the sword for the trowel, and set themselves assiduously to the task of reconstructing their manufactures and commerce on the lines of mass production. Between 1815 and 1830 there was some advance towards factory

organization, especially in the silk and cotton industries. The output of beet-sugar refineries increased year by year. This sugar, being untaxed, had a considerable advantage over imported cane-sugar, and a great controversy arose between the consumers on the one hand, wishing in the interests of cheapness to encourage the beet-sugar industry, and the planters, the refiners, the shipowners, and the Treasury on the other, wishing for obvious reasons to destroy it.

Progress would have been still more rapid had not the raising of the tariff against foreign imports, in 1822, called forth retaliatory measures against French manufactures and agricultural products, especially silk and wine. The excessively high duties made smuggling very profitable, especially when the contraband consisted of articles of small bulk but great worth, such as fine English muslins. Intercourse with the colonies¹ continued to be along the lines of the old protective system. The plantations were thought of as private estates, whose function it was to provide France with what she needed. The growth of the beet-sugar industry eventually undermined the system, for the planters demanded with justice the right to sell elsewhere the cane-sugar which France could now no longer absorb.

From the accession of Louis Philippe in 1830 to the Revolution of 1848, we see the same tendencies at work. As long as tariffs remained high, and foreign machinery and the raw materials of manufacture were excluded, French commerce, though still progressing, was developing much more slowly than British. In view of this Napoleon III reversed the tariff policy and inaugurated a great industrial revival. To France,

¹ The overseas possessions at this time consisted only of the "major colonies" of Réunion, Martinique, Guadeloupe, and Guiana, and the "secondary establishments" of Saint Pierre and Miquelon with some trading ports in India and the Senegal coast of Africa.

as to every other commercial nation, the influx of Californian and Australian gold after 1848 was a factor making for a rising market and greater activity. The 'fifties witnessed a rapid advance in agriculture, manufactures, transport, and foreign trade. Government loans were available for road, canal, and railway developments, and bounties were given to encourage steam navigation to America and the East. Cheap postal and telegraphic communication aided the revival. By the admission of machinery at a much lower tariff (1856), the use of mechanical power in manufacture at last became general, and the productiveness of industry increased in proportion. The ancient exclusive colonial system gave place to an era of freedom. Following the example of Britain, France allowed her colonists to determine their own commercial policy.

The French have always been known as a thrifty people, and social custom has required that every household should endeavour to save out of current income a sufficient amount to provide marriage dowries for the children. In consequence of this, capital accumulation has always proceeded rapidly. Banking institutions in France were of later growth than in Great Britain or the United States of America, but when they appeared, they found a large quantity of hoarded money awaiting investment. The development of railways, public utility companies (e.g. gas companies), and manufacturing concerns provided channels along which this capital might flow to productive uses. Much of it found its way to foreign countries, being lent to Russia, Turkey, and South America. France thus became prominent in international finance, and the banks of Paris were the chief agents in negotiating loans required by the European states.

Until the outbreak of the Franco-Prussian War in 1870, French commerce was developing very rapidly. Cheaper production enabled French goods to penetrate new markets, such as those in the Far East. The Suez Canal scheme originated in France, and the work was carried out by French engineers. In addition to coal-mining and iron production, the industries which showed the most rapid growth were the woollen, the silk, and the cotton manufactures. France had each year larger surpluses of wheat, and her export of wine, fruits, and dairy produce was also growing in volume.

French Commerce since the War of 1870-71.

The expansion of French trade was momentarily checked by the outbreak of war in 1870, but the nation showed extraordinary recuperative powers. Notwithstanding defeat in the field, destruction of capital, and payment of a war indemnity of £200,000,000, the economic resources of France were adequate to the occasion. The indemnity was paid ultimately out of the hoards of the French peasantry, and the waste of capital was quickly made good by intensified production. There was a reaction towards a higher level of tariffs, but the recovery was probably due rather to the excellent agricultural system upon which French economic life rests.

Relatively to the other commercial states, France has fallen behind in the race for world trade. A large part of her manufacture is carried on in small workshops, a fact which perhaps accounts for the remarkable diffusion of inventive genius among French craftsmen and engineers. The expansion of French industry has not given rise as in Great Britain, the United States of America, and Germany to all the economies of large-scale production and specialization. Her industries are not equipped for the production

of cheap goods in large quantities, such as are required by the teeming populations of industrially backward countries like India and China. France has been poor in the raw materials, coal and iron, which are required for machine industry on a big scale. The character of her people disposes them to specialize in high-grade articles, such as dress, jewellery, food delicacies, and whatever ministers to taste and luxury. Since these are of small bulk, France has not required great shipping capacity for her exports; her mercantile marine has consequently remained almost stationary, notwithstanding the bounties on shipping by which successive governments have attempted in the interests of the navy to establish a nursery for seafarers. The system of bounties unwisely favoured the construction of smaller vessels, and especially sailing ships, which even in 1905 made up three-fourths of the total new tonnage.

Imperial Expansion in N.W. Africa.

During the last twenty years France has come into possession of what is virtually a new colonial empire in Africa. Algiers was acquired as early as 1830, and Tunis was placed under French protection in 1881; but it was not until the present century that the real commercial development of North-West Africa began. The most important territory is Algeria, in which French capital was used to construct roads, railways, harbours, and mines, and to promote agriculture. France now receives from Algeria in order of total value, wine, cereals, cattle, table-fruit, olive-oil, minerals, hides, and wool; and in return sends cotton fabrics, tools and metal products, motor-cars and bicycles, furniture, machines, sugar, clothing, paper, and chemical products. Four-fifths of Algerian exports to France are foodstuffs, and four-fifths of her imports from France

are manufactured articles. Of the trade of Tunis and Morocco, much the largest share similarly belongs to France. Tunis exports phosphates and metallic ores (iron, lead, zinc), wine, cattle and sheep, sponges, cereals, olive-oil, cork, alfa grass ; and Morocco sends hides, dry vegetables, wool, and fruits. Tunis imports from France wheat, sugar, soap, agricultural machinery, and motor-cars ; while Morocco obtains from the same source sugars, silk, cotton, tools and metal products, wines, and ready-made clothing.

Post-War Conditions in France.

Since the war three main influences affecting the competitive situation have been at work. Firstly, as already stated, the depreciation of the franc has enabled French firms to tender successfully, even in competition with British firms, for contracts for ship construction. The same cause has led to a boom in the export trade. Secondly, the acquirement of the Alsatian provinces has doubled the ore capacity of France, and supplied her with abundant fuel. Thirdly, many of her factories, especially in the devastated area, have been reconstructed on up-to-date lines, her population in these districts rehoused, her farms supplied with modern equipment, and her roads and railways improved, so that the productive power of the country is vastly increased. " So far as the present economic situation admits of definite conclusions, France is strengthening her position as an exporter of raw materials and of manufactured products ; she is endeavouring with success to free herself from her dependence on foreign production for many raw materials for her agricultural industry (i.e. fertilizers, more especially nitrogenous manures) as well as for manufactured goods ; and her system of production (modernization of plant, greater size and combination of units, better comprehension of foreign trade, and

improved organization in the staple industries) has developed as a whole in a way which has almost brought her abreast of the United Kingdom, the United States, and Germany.”¹

COMMERCIAL DEVELOPMENTS IN NORTH AND SOUTH AMERICA

The United States.

Reference has already been made to some aspects of the commercial history of the United States of America, and it will be sufficient here to consider the changes produced by the Great War. In the first place, many European countries were cut off from their former sources of foodstuffs in Russia, and were unable to withhold from military service sufficient labour to obtain the normal yield from their own soil. They were compelled, therefore, to turn to America for supplies not only of grain and raw materials, but also for much else that was necessary for equipping their armies in the field. From 1915 to 1917 the export trade of the United States showed an enormous and continuous expansion, whether reckoned in values or in quantities. The importation of manufactured goods from Europe fell off, but that of industrial raw materials from South American and Asiatic sources more than made up for this decline.

The net result was to convert the United States from a debtor to a creditor nation. She secured control of the larger part of the gold supply of the world, cancelled her foreign indebtedness, and placed loans in all the allied belligerent countries. The effect of this may be traced in the trade returns. The excess of exports over imports, which was so permanent a feature of the pre-war balance sheet, is now disappearing. While the

¹ *Survey of Overseas Markets*, page 67.

value of exports in 1923 was 69 per cent above that of 1913, the value of imports in the same interval had increased 109 per cent.

The increasing volume of ocean-borne trade demanded a shipping tonnage far beyond the capacity of the pre-war mercantile marine of the United States, and the loss caused by the German submarine campaign made the situation still more acute. There was a deep-rooted objection to the grant of shipping subsidies to private owners, and equally to a State-owned service, but in 1916 a Shipping Board was established to purchase or construct ships for foreign trade and to meet all operating losses.¹ By the end of the war, the mercantile marine had increased from seven to fourteen million tons, most of which is State-owned. The Mercantile Marine Act permits the leasing of vessels to private shipping agencies, which operates in effect as a subsidy. The Act also provides funds at low interest charges to aid new construction, and to fit existing Government vessels with oil engines.

The productive capacity of the United States, already very considerable before the war, increased rapidly as a result of intensive organization during the years of stress. While five and a half million workers in 1904 produced goods to the value of fourteen milliards of dollars, nine million workers in 1919 produced goods to the value of sixty-two and a half milliard dollars. In consequence of this, the average standard of living is extremely high, and the United States offers the largest market in the world to sellers of high-class goods and luxury specialities.

There have been some important changes in the direction of U.S.A. trade. What Europe is losing,

¹ Though it was provided that the functions of the Board should cease within five years of the end of the war, it is still in existence, and annual deficits are met out of taxation.

Canada, the other British Dominions, and the Far East are gaining. It has been pointed out as a pregnant feature of United States foreign investments that in Europe they have found their way chiefly into Government bonds, while in other parts of the American continent, in Cuba and in Asia, they are held in the form of industrial stocks.

Argentine.

The visit of the Prince of Wales to the Argentine in 1925 drew attention to the commercial possibilities of this territory, into which during the nineteenth century a considerable amount of British capital had found its way. Of the 22,000 miles of Argentine railways, over 15,000 are British-owned. For such a large area the population is still small (about 10,000,000), and the country cannot yield its wealth to commerce until means of communication have been much further developed. Owing to the scarcity of suitable stone there is at present only one mile of road to two miles of railway.

The chief export commodities of the Argentine are wheat, chilled beef, and wool. The country obtains in exchange manufactured goods : from U.S.A. agricultural machinery, oil, motor-cars and tractors, lumber and paper ; and from Great Britain textile goods. In consequence of the magnitude of British capital investments, the imports derived from the latter were, until 1913, equal to those of her two chief competitors added together. Since the war this predominance has become much less pronounced, and the shares of the United Kingdom and of the United States are now approaching equality. The pressure of the great industrial populations on the resources of the world's granaries will lead inevitably to keen competition in future for trade concessions in the Argentine.

Brazil.

The population of Brazil is three times as great, and offers therefore a more important immediate market. But here trade has been hampered not only by the difficulties of transport, but also by political disturbance and crushing financial burdens caused by unproductive expenditure in the past. The staple product is coffee, which still accounts for two-thirds of the total value of the exports. Cotton and rubber are at present next in importance ; but certain seeds and nuts are becoming most valuable sources of the vegetable oils, which now enter in ever-increasing quantity into the manufacture of soap, margarine, and other articles of universal consumption. Though the aggregate of trade has declined as compared with that of pre-war years, the share of the United Kingdom has slightly increased. Brazil has the distinction of being the most highly protected country in the world. In 1914 the estimated *ad valorem* incidence of the tariff applied to British goods was 88 per cent ; in 1924 it had fallen to 41 per cent, but was still the heaviest.

**COMMERCIAL DEVELOPMENT IN THE
FAR EAST****Japan.**

The entry of Japan into world trade took place about 1870, when the replacement of a large number of feudal authorities by a strong, central power made it possible to formulate a national policy for commerce and industry. The first step was to introduce factory methods into the country. In a very short space the old domestic system of industry disappeared to make room for up-to-date scientific processes. At this time, and for a decade later, Japan's foreign trade was mainly in the hands of alien merchants who enjoyed certain rights of trading at the "Treaty Ports."

The growth of national consciousness emboldened native firms at first to seek entry into their own markets. Then, in the short space of two generations, Japanese enterprise passed beyond these limits, and her commerce has become as far-flung as that of any country. Until very recent years the low standard of wages in Japan, combined with the excellence of her fixed producing plant, enabled her to compete against the Western nations with marked success. The Japanese have shown a wonderful aptitude for assimilating ideas, and they have sent their most capable young men to travel abroad with set purpose to study methods and systems.

The Government has been enlightened enough to give every possible support to infant industries, and has not hesitated itself to engage in trade and to organize national services, such as railway transport. There has taken place a profound revolution in the domestic habits of the people, which has multiplied their demand for the manufactured products of the West, and stimulated them to pay for these imported goods with those of their own manufacture.

There are two staples of Japanese export trade, namely, raw silk and cotton tissues, the former amounting to 40 per cent of the whole. "A disturbance in the market for either of these products can therefore seriously upset the balance of the whole foreign trade of the country. It is evident, therefore, that Japan's prosperity is to a great extent contingent on the American demand for raw silk; but the silk industry in America has grown to such vast dimensions, and is so entirely dependent on Japan as a source of supply, that nothing short of a world calamity is likely to disturb this trade, which has continued to grow year by year. The cotton tissue business with China stands on a very different footing. It is subject to

boycotts and political disturbances, and it is also liable to suffer from the growing competition of China's domestic production. Japanese capitalists have realized this latter danger, and have for some time past been erecting cotton mills in China." ¹

During the Great War, the foreign trade of Japan expanded phenomenally. The energy shown by the Government in encouraging shipbuilding met with its reward, for in this expansion ships of native construction played a great part. In the comparative absence of British competition during the war, Japan secured a strong hold on Asiatic markets, so that whereas at one time the United Kingdom and the United States of America were the most important markets for her products, they have now yielded first place to Asia.

In the last twenty years the proportion of Japan's imports derived from the United Kingdom has fallen from 20 to 12 per cent, and the proportion of her total exports consigned to this country has fallen from over 5 per cent to less than 3 per cent. ² The proportion of the United States, on the other hand, has increased, but not so fast as that of India. China is a very important market for Japanese goods, especially for cotton-yarn and piece-goods of coarser grades, and in return she provides Japan with essential raw materials. The result of the competition of Japanese cotton goods in India is seen in the fall of the share of the United Kingdom from 97 per cent to 86 per cent during the last ten years, and the rise of the Japanese share from less than one-half of 1 per cent to 7 per cent in the same period.

Estimates of the direct material loss caused by the earthquake of September, 1923, vary from £250,000,000

¹ *Survey of Overseas Markets*, page 411.

² These percentages refer only to the relative proportions of total Japanese trade. Absolutely, British trade with Japan has trebled in volume since 1904.

to £500,000,000 sterling. To this must be added the indirect losses occasioned by the suspension of industry, business, and communications. About 10 per cent of the cotton spindles were destroyed and woollen mills also suffered severely. The greatest losses fell upon the shipbuilding yards of Tokyo and Yokohama. Fortunately, the busiest industrial region (including the silk factories) escaped damage. Though the disaster has postponed the recovery of Japan from the after-war depression, it may be expected that the remarkable powers of her enterprising people will rapidly bring back prosperity.

China.

With the abolition of the trading functions of the East India Company, in 1833, the commerce of the Far East was thrown open. The Chinese Wars (1838-60) were followed by the cession of Hong Kong and the opening of other treaty ports, including Canton and Shanghai, to British merchants. The Treaty of Tientsin, concluded in 1858, is still the basis of foreign trading relations. It limits the Chinese import and export tariff to 5 per cent and permits re-export into the interior. Foreign merchants are compelled to reside in the settlements assigned to them in the treaty ports, but may travel for purposes of trade. They enjoy certain extra-territorial privileges, such as the right of trial by their own consular courts.

The economic development of China in the past has been chiefly due to British enterprise, which has built railways and canals, taught the Chinese modern methods of business organization, and introduced to them many products of Western industry. But the awakening of China could not fail in course of time to result in impatience of foreign control. The pushful commercial methods of other foreign traders, especially German and

Japanese, has produced a widespread idea in China that the wealth of the country is being exploited to her disadvantage. At the Washington Conference of 1921, a revision of the treaties was discussed with a view to limiting the extra-territorial privileges of foreigners, arranging a more scientific tariff, and improving the regulation of inland trade and taxation. Discontent has recently come to a head and a boycott of British and foreign trade is now in progress, the consequences of which cannot be foreseen.

For many years the two staple commodities of Chinese export trade were silk and tea. A hundred years ago the latter was by far the more valuable export, being 75 per cent of the total. Tea amounts now to but 3 per cent of the whole. In 1860 China supplied half the raw silk of the world, but in regard to this also her share has since declined. In the 'eighties the extension of the list of exports points to a developing economic organization. In succession, sugar, oil-seeds, skins and hides became prominent articles of export. The industrialization of China is proceeding surely if slowly. Sugar refineries, flour mills and mills for the spinning and weaving of low count cottons for native use have been erected. Other characteristic products are cigarettes, soap, matches, and lace. Banking and investment organizations are relatively undeveloped.

China, with her population of 400 millions, is now the largest potential market in the world. But the country still awaits the further development of roads and railways, and a more stable administration of law and order before the beneficent influences of commerce can show her people the way to higher standards of life, and fit them for a worthier destiny among the civilized nations of the world.

APPENDICES

I

WORLD TRADE, 1913 AND 1923¹ BRITISH, AMERICAN, AND FRENCH SHARE

IMPORTS.	TOTAL VALUE.		PER CENT OF TOTAL.	
	1913.	1923.	1913.	1923.
World Total (157 countries)	Million £. 4,365·3	Million £. 5,700·0	100·0	100·0
British Empire—				
United Kingdom . . .	650·2	958·4	15·10	16·81
Other British Countries .	518·0	788·4	11·87	13·85
Total British Empire .	1,177·2	1,746·8	26·97	30·66
United States	361·0	829·0	8·27	14·54
France	333·9	430·5	7·65	7·55
All Other Countries . . .	2,493·2	2,693·7	57·11	47·25

EXPORTS.	TOTAL VALUE.		PER CENT OF TOTAL.	
	1913.	1923.	1913.	1923.
World Trade	Million £. 4,034·8	Million £. 5,299·0	100·0	100·0
British Empire—				
United Kingdom . . .	525·3	743·5	13·02	14·03
Other British Countries .	494·7	853·5	12·26	16·11
Total British Empire .	1,020·0	1,597·0	25·28	30·14
United States	503·1	894·3	12·47	16·88
France	272·8	401·8	6·76	7·58
All Other Countries . . .	2,238·9	2,405·9	55·49	45·40

¹ From *Survey of Overseas Trade*, published by Committee on Industry and Trade, 1925, page 667.

II

THE BALANCE OF UNITED KINGDOM TRADE ¹

	1907.	1910	1913.	1920.	1922.	1923.	1924.
Excess of Imports of Merchandise and Bul- lion	142	159	158	In Million £. 343	171	203	341
Net National Shipping Income	85	90	94	340	110	115	130
Net Income from Over- seas Investments .	160	187	210	200	175	150	185
Commissions . . .	25	25	25	40	30	30	40
Other Services . . .	10	10	10	15	10	10	15
Total " Invisible Ex- ports " on Balance	280	312	339	595	325	305	370
Income Available for Investment Overseas	138	153	181	252	154	102	29
New Overseas Issues on London Market in Year	91	207	198	60	135	136	134

¹ *Survey of Overseas Trade*, page 665. Taken from the Board of Trade Journal for 29th January, 1925.

III

HUMBLE PETITION OF THE UNDERSIGNED MERCHANTS OF THE CITY OF LONDON, 1820

Showeth—

That foreign commerce is eminently conducive to the wealth and prosperity of a country, by enabling it to import the commodities, for the production of which the soil, climate, capital and industry of other countries are best calculated, and to export in payment those articles for which its own situation is better adapted.

That freedom from restraint is calculated to give the utmost extension to foreign trade, and the best direction to the capital and industry of the country.

That the maxim of buying in the cheapest market and selling in the dearest, which regulates every merchant in his individual dealings, is strictly applicable as the best rule for the trade of the whole nation.

That a policy founded on these principles would render the commerce of the world an interchange of mutual advantages, and diffuse an increase of wealth and enjoyment among the inhabitants of each state.

That, unfortunately, a policy the very reverse of this has been . . . adopted and acted upon by the Government of this and every other country, . . . thus inflicting on the bulk of its subjects . . . the necessity of submitting to privations in the quantity or quality of commodities.

That the prevailing prejudices . . . may be traced to the erroneous supposition that every importation of foreign commodities occasions a diminution or discouragement of our own productions to the same extent . . .

That of the numerous protective and prohibitory duties of our commercial code . . . very few are of any ultimate benefit to the classes in whose favour they were originally instituted.

That among other evils of the restrictive . . . system not the least is that the artificial protection of one branch of industry . . . against foreign competition, is set up

as a ground of claim by other branches for similar protection . . .

That . . . the distress which now so generally prevails is considerably aggravated by that system, and that some relief may be obtained by the earliest practicable removal of . . . the restraints.

That . . . merchants and manufacturers in foreign states have assailed their respective governments with application for further protective . . . duties and regulations, urging the example and authority of this country.

That nothing would more tend to counteract the commercial hostility of foreign states than the adoption of a more enlightened and more conciliatory policy on the part of this country.

That . . . it does not follow that we should maintain our restrictions (even) in cases where the desired concessions on their part cannot be obtained . . .

That, upon the whole, the most liberal would prove to be the most politic course on such occasions . . .

That, in thus declaring, as your petitioners do, their conviction of the impolicy and injustice of this restrictive system, and in desiring every practicable relaxation of it, they have in view only such parts of it as are not connected . . . with the public revenue . . . Your petitioners cannot expect so important a branch of it as the customs to be given up, unless some substitute, less objectionable, be suggested.

Your petitioners therefore humbly pray that your honourable House will be pleased to take the subject into consideration, and to adopt such measures as may be calculated to give greater freedom to foreign commerce and thereby to increase the resources of the State.

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